Aalto University

School of Science

Degree Program in Industrial Engineering and Management

Miikka Kujala

Evaluating the adoption and monitoring the application of value-based selling

Master's Thesis

Espoo, August 27th, 2015

Supervisor: Professor Risto Rajala, D.Sc. (Econ.)

Instructor: Pekka Töytäri, D.Sc. (Tech.)

AALTO UNIVERSITY ABSTRACT OF THE MASTER´S THESIS

School of Science

Degree Program in Industrial Engineering and Management

Author: Miikka Kujala		
Subject of the thesis: Evaluating the adoption and monitoring the application of value-based selling		
Number of pages: 129+4	Date: 27.08.2015	Library location: TU
Professorship: Operations and Service Management		Code of professorship: TU-22
Supervisor: Professor Risto Rajala, D. Sc. (Econ)		
Instructor: Pekka Töytäri, D.Sc. (Tech.)		

Companies are increasingly opting for value-based selling to gain competitive advantage in industrial business-to-business exchange. Researchers propose a value-based approach to selling as a promising solution for the prevailing challenges with increased competition, decreasing margins and global sourcing practices of customers. However, there is yet no definite understanding on how value-based selling can be practiced effectively and whether the outcomes are beneficial for the seller. Assumptions on improved profitability and other business impacts have not been verified in practice. There is a gap in research on the mechanisms that embody the effects of applying a value-based sales approach. This thesis aims to fill this gap by explaining how the maturity and the progress of the adoption of value-based selling can be monitored, and by demonstrating what the verifiable outcomes of a successful value-based selling process are.

An extensive literature research was conducted to identify what type of metrics existing theory suggests for evaluating adoption and for monitoring application. The key capabilities that support the metrics were identified in the research as well. The literature study focused especially on the value-based selling and customer buying processes as well as the corresponding opportunity management process. In addition to the literature study, an empirical single-case study was conducted in order to validate the findings from theory and to provide empirical outcomes. 22 interviews were conducted at a global industrial supplier.

This thesis outlines a framework of the metrics and capabilities which enable evaluating the adoption and monitoring the application of value-based selling. The study identifies that the effective method for evaluating adoption, is to monitor whether the sales function is performing the critical activities at the right time in the selling process. The activities are measured with performance indicators at each stage of the selling process. Value-based selling can only be expected to be successful and have business impacts if the sales function has adopted the approach effectively. The activities lead to verifiable outcomes called gate criteria which indicate whether the sales case is opportune to continue with value-based sales efforts. The gate criteria at each stage of the selling process enable monitoring the success of application and applying effective opportunity management.

A theoretical contribution of this thesis is the analytical framework of a successful value-based selling process. The framework of metrics provides industrial managers with knowledge and guidelines for developing sales towards effective value-based selling. Further research should be conducted on the performance outcomes and true business impacts of value-based selling.

Keywords: value-based selling, adoption, application, value-based selling process, opportunity management	Publishing language: English

AALTO-YLIOPISTO	DIPLOMITYÖN TIIVISTELMÄ

Perustieteiden korkeakoulu
Tuotantotalouden koulutusohjelma

Tekijä: Miikka Kujala

Työn nimi: Arvoperustaisen myynnin omaksumisen ja soveltamisen monitorointi

Sivumäärä: 129+4	Päiväys: 27.08.2015	Työn sijainti: TU
Professuuri: Tuotannon ja palvelujen johtaminen		Koodi: TU-22

Työn valvoja: Professori Risto Rajala (KTT)

Työn ohjaaja: Pekka Töytäri (TkT)

Arvoperustainen myynti on noussut yhä suositummaksi tavaksi yrityksille tavoitella kilpailuetua teollisessa yritysten välisessä vaihdannassa. Tutkijoiden mukaan arvoperustaisella myynnillä voidaan ratkaista tiukentuneen kilpailutilanteen, heikentyneiden katteiden, ja ostajien globaalien hankintakäytäntöjen tuomia haasteita. Suosiosta huolimatta vielä ei ole tarkkaa ymmärrystä siitä, miten arvoperustaista myyntiä pitäisi harjoittaa tehokkaasti tai mitkä ovat sen tosiasialliset vaikutukset. Olettamuksia on tehty kannattavuuden paranemisesta, mutta niitä ei ole pystytty todentamaan käytännössä. Teoriassa on selkeä aukko siitä, miten arvoperustainen myynti tarkalleen toteutetaan ja mitkä sen vaikutukset ovat. Tämä tutkimus pyrkii tunnistamaan, miten omaksumisen onnistumista voidaan seurata ja miten tehokasta soveltamista kuuluisi monitoroida.

Tutkimuksessa suoritettiin laaja kirjallisuuskatsaus, jossa tunnistettiin teorian esittämiä metriikoita, joilla olisi mahdollista seurata arvoperustaisen myynnin omaksumista ja monitoroida soveltamisen onnistumista. Keskeiset kyvykkyydet, jotka tukevat havaittuja metriikoita, esitellään myös kirjallisuuskatsauksen osana. Teoriaosuudessa tutkimusta keskitytään erityisesti kolmeen toisiinsa linkittyneeseen prosessiin: myyjän arvoperustainen myynti- ja myyntimahdollisuuksien johtamisprosessi, sekä ostajan ostoprosessi. Kirjallisuuskatsauksen lisäksi työssä toteutettiin empiirinen tapaustutkimus, jonka kohteena oli globaalisti toimiva teollinen toimittaja. Tapaustutkimuksessa haastateltiin 22 kohdeyrityksen edustajaa. Haastatteluissa vahvistettiin teoriasta tehtyjä löydöksiä ja lisäksi saatiin uusia empiirisiä löydöksiä.

Tässä työssä muodostettiin viitekehys tutkimusten tuloksista, jotka mahdollistavat arvoperustaisen myynnin omaksumisen ja soveltamisen tehokkaan monitoroinnin. Tehokkain tapa arvioida omaksumisen onnistumista on seurata, tekeekö myynti välttämättömiä toimintoja oikeissa vaiheissa myyntiprosessia. Toimintoja varten luotiin mittaristot kullekin myyntiprosessin vaiheelle. Arvoperustaisen myynnin ei voida edellyttää onnistuvan ja tuottavan positiivisia vaikutuksia liiketoimintaan, mikäli lähestymistapaa ei ole omaksuttu onnistuneesti. Välttämättömät myyntitoimet johtavat todennettaviin lopputuloksiin, joita kutsutaan portti kriteereiksi, ja ne mahdollistavat tehokkaan soveltamisen monitoroinnin.

Tutkimuksen löydöksillä on selkeä teoreettinen merkitys, koska ne muodostavat mallin onnistuneesta arvoperustaisesta myyntiprosessista analyyttisen viitekehyksen muodossa. Lisäksi, viitekehys tarjoaa myyntijohtajille suuntaviivoja myynnin kehittämiseksi kohti tehokasta arvoperustaista lähestymistapaa. Jatkotutkimuksissa tulisi selvittää arvoperustaisen myynnin tosiasialliset liiketoiminnalliset vaikutukset.

Asiasanat: value-based selling, adoption, application, value-based selling process, opportunity management	Julkaisukieli: englanti

ACKNOWLEDGEMENTS

First and foremost I would like to thank my parents. This Master's Thesis marks the pinnacle of my formal education which I consider began when I entered first class in St. George's International School in Luxembourg at the age of 5. During this 20-year school career, my parents have always given me tremendous support and valuable guidance. I believe it is safe to say that I would not be here, writing these words, if it wasn't for their sacrifices and help. Thank you.

I am absolutely obliged to thank the rest of my family also. Going to school, and studying at the University for that matter, has always been easier and reassuring with you guys, Jukka, Lotta and Niko, roaming the same buildings. I am confident that the presence of each other has provided each one of us with support and healthy competition to push us forward. Thank you.

Next, I would like to thank my best friend, my partner in crime, and the love of my life, Tuuli. You always manage to put a smile on my face and cheer me up even after a long day at work or at the University. I can honestly say that my life changed for the better on the day I met you. Thank you for supporting me and being by my side.

There are a lot of people who I need to thank for their friendship and all the memories we've made. My friends from high school, who continued their studies with me in the University, Allu, Antti, Juho, Vili, Topi, Valis, Kimmo, Juuso, Tony and Code. Thank you guys for making these years special in our lives, we've had a blast, and I hope we'll have a lot of fun times ahead of us also! Additionally, I have to thank all my more recent friends who I have met through my girlfriend. Thank you for welcoming me into your inner circle and letting me be part of your inside jokes. Furthermore, my student life would not have been the same without all the great times with my incredible ice-hockey team, PUS-Hockey.

Lastly, I want to thank the people who were a big part of my thesis process. Risto and Pekka, big-P, thank you for entrusting me in this position and for all the guidance you provided me. Thank you also to the case company and my contact person, Pekka, for cooperating with me. Finally, I'd like to thank my colleagues, Petri, Esko, Tapio and Ville, for all the quality conversations and laughs we had.

"The great aim of education is not knowledge, but action" –Herbert Spencer

Time to act.

Miikka Kujala
Espoo, August 27th 2015

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1. Introduction

This Master's Thesis is part of a larger research ensemble, the FIMECC Future Industrial Services research program. Specifically it contributes to the Service Engineering and Management (SEM) research group which was initiated in 2013 as a response to the growing importance of services in industrial companies and conducting business. The research group investigates services and service operations in inter-organizational service systems by combining multidisciplinary knowledge to conducting multi-method research.

The first chapter of the thesis will provide a brief background preface to the topic and justification for the research. The objectives of the thesis are also presented as well as the specification of the research questions. Next, the design of the research is explained shortly accompanied by rationale for the scope and limitations of the work. The chapter ends in an overview of the structure of the thesis.

1.1 Background and motivation of the research

Intensified competition, global sourcing practices and the commoditization phenomenon of industrial goods and services have elicited profitability challenges for many suppliers due to the increased buying power of customers. In the past, competitive advantage was pursued by means of price discounts which led to decreasing margins. This forced suppliers to reinvent value creation and their sales strategies. In many cases, extending the offerings to services and the adoption of a value-based approach to relationships have been identified as potential solutions. The value-based sales strategy has attracted considerable attention, both in scientific research and at different points of industrial value chains.

In traditional product or service sales, the customers are self-reliant in developing an understanding of what they need and value, as well as defining their constraints and requirements. After determining these, they approach the market and tender suppliers for a solution. The suppliers' sales functions then attempt to understand the customers' needs in order to offer them a bundle of goods and services which fulfill these needs (Slater, 1997; Weitz & Bradford, 1999). This kind of reactive sales process is in line with the traditional view of the sales function according to which sales contributes to conceiving, producing, and delivering customer value (Haas, Snehota, & Corsaro, 2012).

By implementing value-based sales strategies suppliers attempt to move upstream in their customers' business processes. The suppliers' sales functions proactively establish dialogues with customers in order to understand their businesses and identify business opportunities. This on-going collaboration likely enables the supplier to secure the deal. With the two parties cooperating in the solution development phase, the exchange is likely to create significantly more value for the customer. However, in order for the sales function to be able to proactively contribute to the solution vision, it must conduct essential customer business research, value chain analyses, and industry insight acquisition. These preparation measures enable the seller to engage in a meaningful conversation with the customer and provide a common ground for a value-creating relationship. Obviously, value-based selling requires a number of new demanding capabilities that are not associated with traditional salesmanship which is why the implementation may be challenging.

Proactive selling relates to business-to-business companies introducing a service-dominant business logic which emphasizes developing value together with the customer. As a result, sales processes have become more relationship-heavy which must be reflected in the role of sales (Sheth & Sharma, 2008). By cooperating in the value creation, the emphasis of an exchange can be transferred to the customer-perceived value of the solution instead of an earlier one-dimensional comparison of prices or total costs of ownership (TCO). However, life-cycle costs are an easily quantifiable metric which makes the comparison of competing offers straightforward. Therefore, it is essential in value-based selling to provide evidence of actual value to the customer's business and to effectively communicate this in the sales process. This requires an understanding of what the customer perceives as value and utilizing it as the pricing reference, instead of the supplier's costs or market prices.

Successful value-based selling is a resource-intensive approach with the majority of costs incurred upfront before the sales deal has even been finalized. The reason for this is that the approach requires comprehensive pre-sales preparations, significantly broader sales efforts (consuming more time and money), and extensive collaboration in developing a solution with real business impact for the customer. All the preparation efforts of the sales function, such as acquiring industry data and customer business insights, identifying relevant business cases, and educating consultative skills, incur costs and require investments, but they are absolutely necessary. Hence, prioritization and effective business opportunity management are important practices alongside value-based selling (Homburg, Droll, & Totzek, 2008).

Due to the significantly higher costs and risks of value-based selling, it is unclear whether this sales strategy provides the kind of business impacts that companies hope for and believe in. The value-based sales efforts evidently tie more resources and take more time than traditional selling which could result in adverse effects on profitability. For example, if the customer can at any point in the sales process tender for a competing offer and possibly end up choosing it, all of the value-based sales efforts have been in vain. For this reason, it is advantageous to aim for temporary exclusivity in the sales case or by other means operate under a preferred supplier status with the potential customer (Töytäri, Rajala, & Alejandro, 2015). There are studies that support the profitability of value-based selling (Aberdeen Group, 2011; Terho, Haas, Eggert, & Ulaga, 2012), but there are still weaknesses in specific knowledge on the mechanisms that embody the effects of value-based selling on company performance, profitability, and growth (Töytäri, 2015b). Some research has been conducted on the potential outcomes of value-based selling and the effects on sales function performance, and their results suggest that value-based selling would be a beneficial addition to a company's sales approach portfolio (Aberdeen Group, 2011; Michael Moorman, Ruddell, & Sims, 2013; Terho et al., 2012). However, there are no studies that would have investigated, for example, how to measure and evaluate the success of value-based sales efforts.

1.2 Research objectives and questions

A common finding of recent studies has been the fact that the role of selling is often much more central in an industrial company than what had been suggested in marketing literature (Haas et al., 2012; Homburg, Jensen, & Krohmer, 2008; Storbacka, Ryals, Davies, & Nenonen, 2009). In addition, a distinct change has been identified in the focus of the sales function of a company evolving from operational to strategic (Geiger & Guenzi, 2009; Leigh & Marshall, 2001; Storbacka et al., 2009). These discoveries underline the reality that successful performance of a company requires effective implementation of the sales strategy, developing necessary capabilities within the organization and the sales function and understanding the business impact of the sales efforts.

Although industrial companies are increasingly opting for value-based selling in order to overcome the so-called commodity trap (Sanford & Taylor, 2005) and to improve profitability (Hinterhuber, 2004; Liozu, Hinterhuber, Boland, & Perelli, 2012), a consensus is yet to be reached on what the outcomes of successful value-based selling are. In theory, a proactive sales function which engages buyer's in a constructive dialogue, enables the seller to affect the customer's perception of value, possibly reveal previously unnoticed shortcomings, improve chances of closing deals and facilitate value co-creation (Adamson, Dixon, & Toman, 2012). However, the benefits in practice have not been studied sufficiently in order to verify these assumptions.

In addition to the gap in understanding the outcomes of successful value-based selling, there is a lack of studies concerning the necessary capabilities of the sales function. Value-based selling can be divided into three key elements which are identifying, quantifying, and communicating customer value in the buyer-seller relationship. The transition to a value-based strategy in the sales function evidently requires more demanding and versatile capabilities. Unless the seller is able to understand customers' business processes, business imperatives, value drivers and business models (Gebauer, Fleisch, & Friedli, 2005), and credibly develop, quantify and communicate a superior value proposition, a company's value-based sales strategy will not positively impact performance (Anderson, Kumar, & Narus, 2007). Concerning the implementation of a strategic focus on value creation, more knowledge is required on how organizational value orientation and management practices translate into sales behavior and respectively how this behavior reflects in performance levels (Rackham & DeVincentis, 1999). This research gap on understanding the necessary capabilities of the sales function and the prerequisites for successful implementation of the value-based strategy are directly related to accumulating knowledge on the outcomes of value-based selling.

The objective of this thesis is to study a successful value-based selling process and understand the mechanisms that embody the outcomes of value-based selling efforts. This objective includes recognizing necessary capabilities of the sales function and prerequisites for successful adoption of the strategic focus on value creation.

The objective of the literature review is to gain understanding of the studies that have been conducted concerning the value-based selling process and the successful application of the approach. The literature review will cover the concept of customer value, value exchange, value-based selling, value creation, dynamic capabilities, implementation and change management, and value-based selling and opportunity management processes. The research question that the literature review aims to answer is:

RQ1: What metrics does literature propose for measuring the adoption and application of value-based selling, and which capabilities support them?

In addition to the literature review, a case study shall be conducted as empirical research in order to create new knowledge to contribute to the value and marketing research communities. The objective of the theoretical and empirical research can be illustrated with a 2x2 matrix displayed in Figure 1. Firstly, the case study looks into the metrics and capabilities that indicate how the application of value-based selling has been managed and measured in the case company. However, the outcomes of the application of the approach cannot be evaluated without understanding the success of adoption. This is why, secondly, the empirical research aims to recognize available metrics and necessary capabilities for concluding successful adoption. The empirical research aims to answer the following two research questions:

RQ2: Which metrics evaluate the maturity and progress of the adoption of value-based selling, and which capabilities support it?

RQ3: Which metrics monitor the application of value-based selling, and which capabilities support successful application?

The framework in Figure 1 illustrates how the findings of the thesis can be categorized into four segments. Figure 1 includes also some hypothetical examples of what the findings of the study could be.

	Adoption of value-based selling	Application of value-based selling
Metrics	Customer analysis Value quantification Value communication	Customer fits sales strategy Customer needs identified Value communicated Hit rate and profitability
Capabilities	Creating sales model Motivating change Talent management Aligning incentives	Business understanding Opportunity management Communicating value

Figure 1: Research findings matrix illustrating the objective of the thesis, and hypothetical examples of findings

1.3 Literature and empirical research design

This thesis essentially functions as a continuum to previous research that has been conducted within the Service Engineering and Management research group which explains similarities in references with other studies. Previous studies have covered topics such as quantifying customer value, identifying organizational barriers of value-based selling and the application of value-based selling. Thus, this thesis builds on the outcomes of these studies and aims to further contribute new knowledge on value-based selling.

As is common practice in master's theses, this research is two-fold including a theoretical segment and an empirical segment. The literature research and the empirical research are specifically designed to target the aforementioned research questions.

Literature research

The literature research aims to provide a profound understanding of value-based selling and the concepts related to it. This segment can be divided into two parts. The first segment gives insight on background concepts and explanation to events that have led to the development of a value-based approach in sales. It is important to accumulate knowledge around the approach in order to conduct an educated study of the selling process.

The second part of the literature research consolidates findings from previous studies. The objective is to formulate a synthesis of theoretical findings on metrics and capabilities for evaluating the adoption and application of value-based selling. This synthesis will then be utilized as reference when designing the interview questions of the empirical research. Hence, in the case study it is possible to validate the findings of the literature research.

Conducting a profound literature research requires educating oneself with the core theoretical publications. This is accomplished with a thorough search of articles, books and other publications in major databases with, for example, the following key words: customer value, value exchange, value-based selling, business-to-business selling, value co-creation, value-based pricing, change management, dynamic capabilities, sales function capabilities, measuring sales efforts, sales function performance indicators. All together nearly 200 books and articles were studied in the literature research of this Master's Thesis.

Empirical research

The empirical research segment of the thesis is a single case company study which is conducted as a qualitative study. In the empirical phase of the thesis the goal is to identify what metrics the case company proposes for measuring and evaluating the adoption and the application of value-based selling, and which key capabilities, in their experience, support them. The findings concerning the application of value-based selling can be considered the outcomes of successful execution. However, in order to evaluate the application of the approach, it is necessary to understand how effectively the sales strategy has been adopted in the organization. It is not reasonable to expect significant outcomes from a sales strategy that hasn't been utilized properly.

The empirical part of the thesis is realized as a case study because it is an effective method for acquiring in-depth knowledge in a study of this nature (Easton, 2010; Woodside, 2010). A case study is based on acquiring knowledge from multiple sources (Easton, 2010; Yin, 2009) which is why, in this research, data is collected by interviewing several case company representatives from various positions and locations of the organization (Easton, 2010). The empirical part of the research can validate the findings from the theoretical research which is in line with the most common motives for case studies (Järvinen, 2000; Yin, 2009).

The findings from the literature review are used as a basis for designing the empirical research which improves the effectiveness of data acquisition. The interviews with relevant case company representatives provide valuable qualitative data on value-based selling. Data from the case study provides input for identifying sales activity measures to evaluate the adoption of the approach, and verifiable outcomes for monitoring the success of value-based sales efforts. Being a resource-intensive and time-consuming sales approach, value-based selling requires effective opportunity management and sales lead prioritization which are enabled by appropriate metrics and verifiable outcomes throughout the sales process. Furthermore, the required capabilities for the adoption and the application of value-based selling can be determined in the interviews with case company representatives.

1.4 Scope and limitations

Concerning the literature research, the scope of the study is on business metrics and capabilities of business-to-business, industrial value-based selling. For a comprehensive understanding of a successful value-based selling process, this includes metrics and capabilities regarding the adoption of the sales approach as well as the application of the approach itself. Value-based exchange has been researched from multiple angles, including for example consumer markets and other business markets than industrial, but in this study the scope is set specifically to industrial exchange because industrial suppliers especially have resorted to value-based selling in their attempts to recover profit margins and regain competitive advantage.

In the empirical research of the thesis, the theoretical findings from the literature research are tested in interviews with sales professionals from the case company. Figure 2 illustrates how the scope of the research relates to higher level business processes and decisions as well as basic business dynamics.

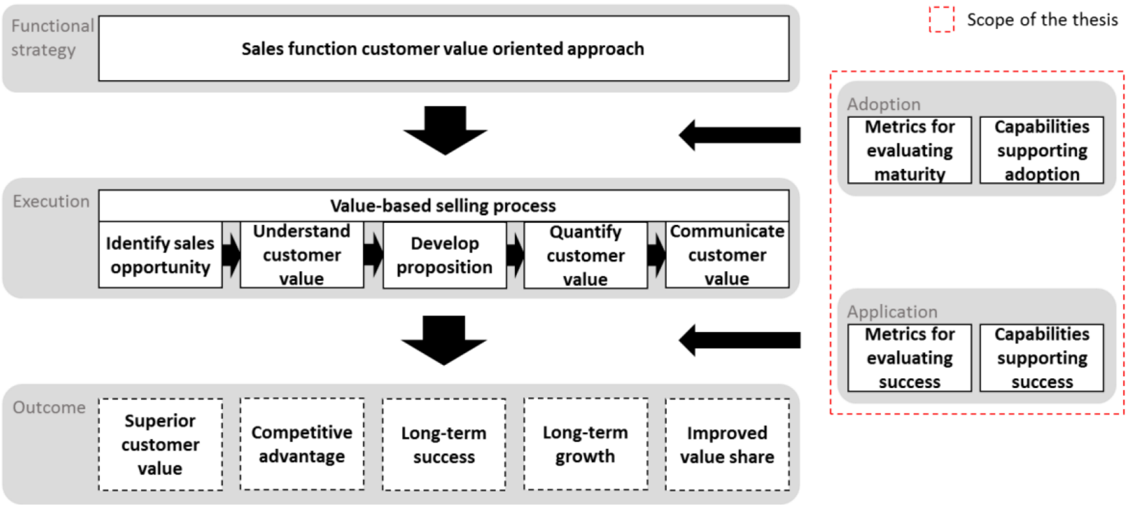

Figure 2: Illustration of the scope of the thesis

Referring to Figure 2, the high level corporate strategy is pursued by separate functional strategies for business units (Hitt & Ireland, 1985). The functional strategy is executed with appropriate processes and practices which provide sometimes predicted and other times unexpected outcomes. A customer-oriented sales function strategy can be realized with value-based selling. In order for the value-based approach to be effective, it must be adopted successfully. Additionally, the company has desired outcomes from this approach which is why the successful selling process should be understood. This thesis focuses specifically on the performance metrics for evaluating the adoption and application of value-based selling, and the key capabilities that support them.

The scope of the empirical research is a single-company case study of a Finnish global industrial supplier. The case company has tens of thousands of employees globally and is among the market leaders in its business. This company will be referred to as Company A later on in the thesis. Company A was chosen to be the case company because it is a large industrial supplier with a sales function that actively practices value-based selling. Additionally, Company A can be considered as a pioneer with its value-based sales efforts. Since the case study only includes one company which also happens to be a large global operator, this severely limits the generalizability of the study's outcomes, especially to smaller companies. However, it was a conscious and rational decision to conduct the empirical research in one single case company because this enables a very profound, detailed and comprehensive understanding of the processes, practices and results of the sales function.

Data collection in the empirical research was limited to only interviews. The decision was made due to time and resource constraints, and interviewing was identified as the most appropriate data collection method for this type of study. Utilizing more data collection methods than one would have improved the credibility and reliability of the results of the study. Possible additional ways of collecting data would have been conducting a survey and analyzing CRM data.

1.5 Structure of the thesis

The chapters of the thesis and their content are briefly explained in the following paragraphs. The structure of the study comprises of four main elements: the introduction, the literature research, the empirical research, and results, discussion and conclusions. The structure is illustrated in Figure 3. At the end of each chapter, a synthesis summarizes the key findings.

Chapter 2 discusses the context of the research by presenting key concepts regarding value-based selling. This chapter is the first part of the literature review which means it gives insight on background elements and explanation to events that have led to the development of a value-based approach in sales. The objective of the chapter is to establish a foundation of knowledge and understanding concerning customer value and value-based exchange. This is a logical prologue before presenting an educated study of value-based selling and the process itself.

Chapter 3 is the second part of the theoretical research and it aims to consolidate findings from previous studies. The chapter presents the concept of value-based selling and the three interconnected processes: the seller's value-based selling process, the buyer's buying process, and the seller's opportunity management process. The research will lead to the theoretical perspectives on metrics for evaluating the adoption and application of the approach, and capabilities that support them. The theoretical findings are synthesized and utilized to design the data collection of the empirical research.

In chapter 4 the thesis advances to present the specifics of the empirical research of the study. This includes introducing the research method, rationalizing the research approach and design, and presenting data collection and analysis methods. In addition, the chapter discusses the research process, formulation and validation of interview questions, and the quality of the research.

Chapter 5 presents the results of the interviews of the empirical study and synthesizes them. The outcomes of the empirical study are accompanied by illustrative quotes from the interviews.

Conclusions regarding the study as a whole are provided in chapter 6. First, the outcomes of both the literature research and the empirical research are discussed thoroughly. Implications and conclusions from the findings are presented next. The chapter ends with recommendations for future research avenues.

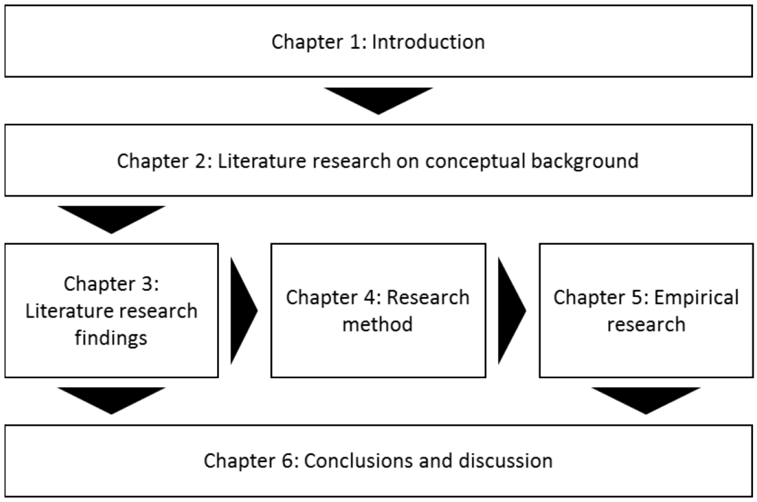

Figure 3: The structure of the thesis

2. Research context

This chapter is an overview of concepts and business processes that are important to understand before studying value-based selling and the selling process. The chapter functions as the first part of the literature research providing insight on background elements in the context of value-based exchange. In addition, the following pages present rationale for the development of a value-based sales approach in industrial exchange.

The chapter begins by establishing a foundation of knowledge on customer value, value creation and value exchange. It continues on to discuss a more sophisticated value-based approach to exchange, including discussion on the role of the sales function as well as a specification of superior customer value. Before a brief synthesis of the chapter's subjects, the shift from reactive to proactive sales strategies in industrial supplier companies is examined.

2.1 The concept of customer value

In any kind of exchange, business-to-consumer, business-to-business, consumer-to-consumer, etc., the basis for the transaction comes down to both parties perceiving that they receive more from the transaction than what they give. Hence, it can be stated that the value offered by a certain product or service functions essentially as the incentive for the customer to buy it. Evidently the intention of customers, and suppliers, is to conduct transactions in which the accrued benefits surpass the incurred sacrifices. The concept of customer value refers to the existence of customers' benefits and sacrifices, and the differential thereof (Zeithaml, 1988). Thus, in the designing phase of a new offering, it is convenient for the company to consider value as the sum of customer benefits subtracted by the customer sacrifices resulting from the purchase of the offering (Day, 1999; Khalifa, 2004; Sweeney & Soutar, 2001; Ulaga & Eggert, 2005).

Studies have shown that comprehending customer value and the creation thereof have a significant role in companies gaining competitive advantage (Anderson & Narus, 2004; Grönroos, 1994; Treacy & Wiersema, 1993;

Woodruff, 1997). Furthermore, it is generally agreed that securing long-term survival and growth greatly depends on the company's ability to create superior customer value (Slater, 1997; Terho et al., 2012; Woodruff, 1997). However, customer value can be interpreted in different ways depending on the nature of the value. The term value conception refers to the entire landscape of alternatives that a customer considers valuable. Customer-desired value is only a selection from the value conception and can be considered as how the customer desires a product or service to perform in a distinct situation in order to obtain desired goals (Flint & Woodruff, 2001). Customer-perceived value is part of the desired value that is present in an offering and it has a slightly more explicit interpretation including all benefits and sacrifices incurred by the search, purchase and use of an offering (Flint, Woodruff, & Gardial, 1997; Graf & Maas, 2008). Recently the definition has developed to focus specifically on value as determined by the customer which means that the value has been realized by consumption in the customer's value-creating processes (Grönroos, 2008; Vargo & Lusch, 2004). Customer-oriented value creation aims to achieve a significant correspondence between the customer-desired value and the customer-perceived value. Figure 4 presents the relation between value conception, customer-desired value and customer-perceived value.

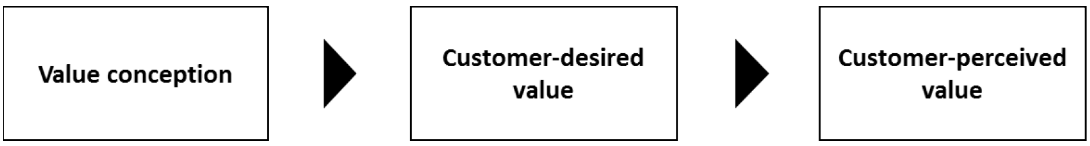

Figure 4: The relation between value conception, customer-desired value and customer-perceived value

Since creating and delivering superior customer value contributes to customer loyalty, satisfaction and retention (Anderson & Narus, 1998; Heskett, Jones, Loveman, Sasser, & Schlesinger, 1994; Khalifa, 2004; Kumar & Grisaffe, 2004; Webster, 1994), it leads to long-term business relationships and success (Ravald & Grönroos, 1996; Reichheld & Sasser, 1990; Töytäri, Alejandro, Parvinen, Ollila, & Rosendahl, 2011; Woodruff, 1997; Yang & Peterson, 2004). It is important to pay attention to the fact that there is a clear difference in who is receiving value when using the concepts value and customer value. Value can be shared in a transaction and as a result both parties can be receivers (Brandenburger & Stuart, 1996). In comparison, customer value strictly focuses on the perspective of the customer business and only includes what the customer perceives and desires to get from purchasing and consuming the seller's offering (Woodruff, 1997). In the context of this thesis, the focus will be on customer value in the sense that the sales function seeks to create an offering with certain value potential which, when realized, will have a positive impact on the customer's business.

Value, customer value and perceived value have received considerable attention in literature resulting in multifaceted, and partially controversial, propositions as for definitions. The differences in opinions stem from the fact that researchers have focused on different aspects of the ambiguous and subjective concept of value, for example on the trade-off attribute of value (Sweeney & Soutar, 2001; Zeithaml, 1988), on the sources of value (Heinonen, 2004), on the relational dimension of value (Möller & Törrönen, 2003; Ritter & Walter, 2012; D. T. Wilson & Jantrania, 1994), or even on a combination of aspects (Lapierre, 2000; Ravald & Grönroos, 1996; Ulaga & Chacour, 2001; Ulaga & Eggert, 2005). In the execution of this study, customer-perceived value was defined as suggested by Ulaga and Eggert (2005):

"...the trade-off between the multiple benefits and sacrifices of a supplier's offering, as perceived by key decision-makers in the customer's organization, and taking into consideration the available alternative suppliers' offerings in a specific use situation."

The deviations in conceptualizing customer value are also a result of the various dimensions and characteristics of value (Anderson & Narus, 1998; Flint & Woodruff, 2001; Hervonen, 2014; Khalifa, 2004; Parasuraman, 1997; Sánchez-Fernández & Ángeles Iniesta-Bonillo, 2006; Wang & Lo, 2004; Woodruff, 1997; Zeithaml, 1988) which will be examined next.

2.1.1 Customer value characteristics and dimensions

Although, the pivotal role of customer value is well recognized in research and literature (Anderson & Narus, 2004; Ravald & Grönroos, 1996; Reichheld & Sasser, 1990; Slater, 1997; Terho et al., 2012; Töytäri et al., 2011; Woodruff, 1997; Yang & Peterson, 2004), it is truly remarkable that the majority of companies possess inadequate knowledge and capabilities to properly assess customer value and benefit from the delivered value accordingly (Anderson, Narus, & Narayandas, 2009). Since knowledge of value is so central in business markets, it can be considered a cornerstone of business management (Anderson, Jain, & Chintagunta, 1993). This implies that companies should strive to understand what their products and services provide to customers and how these offerings could be improved to generate even more value in the customer organization (Lapierre, 2000). In order to succeed in this, a supplier must take into account the characteristics of value, the dimensions it consists of and the drivers that create value for customers (Lichtenthal, Wilson, & Long, 1997).

Customer value and value creation have always been central elements of business, management and marketing literature (Drucker, 1973; Woodruff, 1997). In management studies, several characteristics of value have been identified to describe the concept: subjective, customer-centric, prone to alternatives, contextual, dynamic and causal (Anderson & Narus, 1998; Flint & Woodruff, 2001; Hervonen, 2014; Khalifa, 2004; Parasuraman, 1997; Sánchez-Fernández & Ángeles Iniesta-Bonillo, 2006; Wang & Lo, 2004; Woodruff, 1997; Zeithaml, 1988). These characteristics are illustrated in Figure 5 and described in more detail in the following pages.

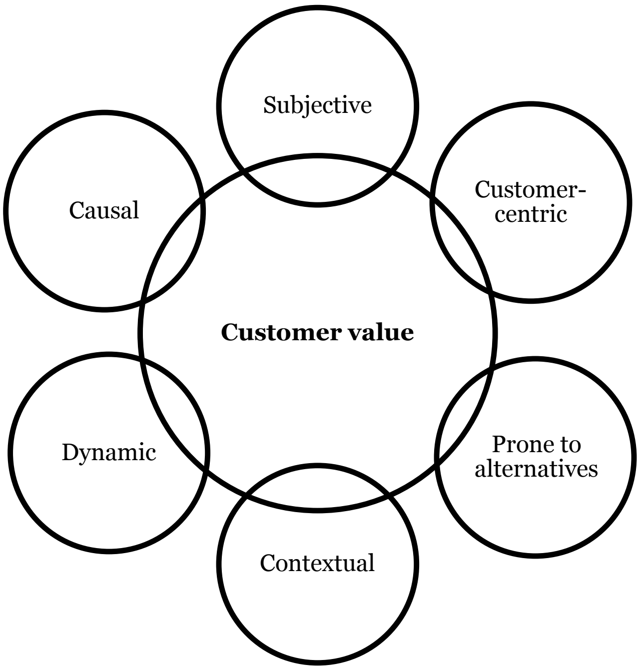

Figure 5: Characteristics of customer value

Characteristics of customer value

Customer value is subjective

The prevailing view on value being a trade-off between benefits and sacrifices incurred from the exchange was first defined by Zeithaml (1988):

"…perceived value is the consumer's overall assessment of the utility of a product based on a perception of what is received and what is given."

What is notable in the definition is that Zeithaml emphasizes subjective and individual assessment of benefits and sacrifices. This specification implies that value and perceived value vary among consumers according to their subjective and unique preferences, beliefs and personal values.

The subjective perspective on value is widely agreed on in literature (Eggert & Ulaga, 2002; Kahneman, Slovic, & Tversky, 1982; Kortge & Okonkwo, 1993; Ramirez, 1999; Vargo & Lusch, 2008). The subjectivity and individuality of the evaluation of value can even be extended from consumers to include all stakeholders who can be considered to be beneficiaries of an exchange (Ramirez, 1999; Vargo & Lusch, 2008). It is not just different customer segments and customers whose perceptions on value differ, there can be differences even within an organization among the people involved in the exchange process (Eggert & Ulaga, 2002; Perkins, 1993).

The subjective perception of value is affected by the personal values of individuals and even organizations (Flint & Woodruff, 2001). These personal values are abstract, built-in, implicit beliefs that guide behavior and endure use context (Flint & Woodruff, 2001).

Customer value is customer-centric

There is wide agreement on the perspective that customer value is distinctly determined by the unique beliefs and perceptions of the customer (Anderson & Narus, 1998; Wang & Lo, 2004; Woodruff & Gardial, 1996; Zeithaml, 1988). Since value is subjective and differs from one customer to another, only the customers themselves can dictate what creates value for them and what doesn't. Additionally, customer value depends on the desired future state of the customer organization which is depicted by the personal preferences, beliefs and values of the organization and its individuals (Flint et al., 1997; Sánchez-Fernández & Ángeles Iniesta-Bonillo, 2006).

According to Vargo and Lusch (2004), value is not objectively present in the product or service concerned in the transaction. Instead, value is co-created and defined together with the customer, and evaluated according to value-in-use by the customer (Vargo & Lusch, 2004). This means that value isn't created based on the knowledge and objectives of the seller, nor in the manufacturing processes of an industrial supplier.

The customer-centric characteristic of value includes the multi-faceted nature of value. The notion of multifaceted refers to the fact that value arises from different dimensions of value (Töytäri, 2015b). An offering can provide value for a customer on many different levels which can be distinguished from each other. For example, some of the value can be quantified in monetary terms while other, softer dimensions can only be evaluated qualitatively.

Customer value is prone to alternatives

As mentioned earlier, the ability to create superior customer value secures a company's long-term survival and business growth (Slater, 1997; Terho et al., 2012; Woodruff, 1997). This statement implies that the created customer value should be superior to what competitors are offering. Consequently, it can be deduced that customer value is relative to competing alternatives. Providing a better trade-off between benefits and sacrifices than competitors effectively enables a supplier to gain competitive advantage (Eggert & Ulaga, 2002). When determining the perceived value and evaluating the attractiveness of an offering, the majority of times customers refer to alternative offerings for price (Monroe, 1990) and value comparison (Treacy & Wiersema, 1993). As a result, the initial value perception of a supplier's offering by a customer may change due to price discounts or offering improvements by competitors.

Customer value is contextual

Ravald and Grönroos (1996) propose that in addition to customer value being customer-specific and subjective, the concept is highly contingent on context. This seems to be a relevant addition because the extant business situation and contextual requisites evidently influence the evaluation and perception of value. The contextual characteristic of customer value is supported by several other researchers and studies. Kowalkowski (2011) states that customer value is context-specific and dynamic with respect to changes in business conditions. The dynamicity of customer value refers to the fact that the evaluation always takes place in a specific use situation

(Eggert & Ulaga, 2002). Similarly, Holbrook and Corfman (1985) propose that value perceptions are situational and value judgments are guided by the context within which they are made.

Customer value is dynamic

Customer value is not just dynamic in terms of context, but also dynamic in terms of evolving over time (Jaworski & Kohli, 1993; Naumann, 1995). The customer's perceptions of value can change over time (Flint, Woodruff, & Gardial, 2002), especially considering in different phases of the exchange process, for example when making the purchase decision or when using it (Woodruff, 1997). When evaluating the benefits and sacrifices of exchange, it is necessary to take into consideration the temporal scope of the process. In a potential long-term partnership the trade-off is not restricted to a single transaction (Ravald & Grönroos, 1996; Ulaga & Eggert, 2005). In a sense, value can be considered future-oriented because many of the benefits of an exchange are attained over a long period of time (Töytäri & Rajala, 2014). However, value doesn't have to be realized over a long-term, like in a business relationship, it can also be short-term, an individual impact or inspiration from a single encounter (Grönroos, 2000).

Customer value is causal

Customer value is only realized in the course of a successful exchange, consumption of an offering and a series of happenings. Customer value is not simply created in the manufacturing processes of the supplier. Thus, customer value is defined to be causal, the result of a series of events and interactions (Holbrook, 1996; Woodruff, 1997). The offering of a supplier doesn't necessarily directly provide value to a customer, but value may be a result of the changes that occurred in the customer's business due to the consumption of the offering. The definition of customer value implies the outcome of a trade-off and an interaction (Payne & Holt, 2001; Sánchez-Fernández & Ángeles Iniesta-Bonillo, 2006).

Dimensions of customer value

Management and marketing literature offer several value constructs that have been developed based on literature research or empirical studies. The proposed constructs comprise of various dimensions that have been identified to influence value. Evidently these constructs bear several similarities and all are the same in the sense that they are not applicable for operationalization or for quantification purposes (Smith & Colgate, 2007).

In the context of this thesis, it is appropriate to discuss a value construct that would be beneficial for a sales function when practicing value-based selling. This kind of construct was conceptualized in an earlier study that was conducted in the Future Industrial Services research program which this thesis is also a part of. The definition of value as a trade-off between the benefits and sacrifices of an exchange was utilized as the basis of the construct because it is convenient for quantification purposes. The advantages of the trade-off perspective include examining value even in long-term relationships, including practically all relevant customer activities, and distinguishing each value element either as a benefit or as a sacrifice (Khalifa, 2004).

The conceptualization referred to was developed by Töytäri, Rajala, & Alejandro (2015) who propose that value consists of four dimensions: operational, strategic, social and symbolic. The operational dimension relates to improvements in customer business performance and enhancements in intra- and inter-organizational processes. The strategic dimension embodies managing and developing key capabilities within the customer organization for long-term competitiveness. The possible effects on a customer's image or external status deriving from a supplier relationship are addressed as the social dimension. Value exchange and a supplier relationship can even bring about increased employee motivation and job satisfaction in the customer's organization which effectively creates symbolic value.

The value construct proposed by Töytäri et al. (2015) is exceptionally compatible with the characteristics of customer value. All four dimensions are closely related to the customer's business which is relevant because customer value is always fundamentally determined by the customer. However, as Hervonen (2014) presents in his thesis, the customer value created through the social and symbolic dimensions after all manifest as operational value. This means that the initial construct of Töytäri et al. (2015) can be further simplified by integrating the social and symbolic dimensions into the operational dimension. Hence, Hervonen (2014) proposes that customer value is "*a two dimensional construct, in which value is the perceived difference of benefits received and sacrifices made by the customer. Benefits and sacrifices combine the operational and strategic dimensions of value.*"

Hervonen (2014) utilizes the resource-based view of a company (J. Barney, 1991) to determine four operational value dimensions for customer value: cooperation-related , product-related, service-related, and process-related. The strategic value dimension focuses on sustaining a company's competitiveness which is why Hervonen (2014) suggests the following three value elements for the dimension: resource access-related, capability-related, and partnership-related. The dimension and elements of value as proposed by Hervonen (2014) are presented in Figure 6.

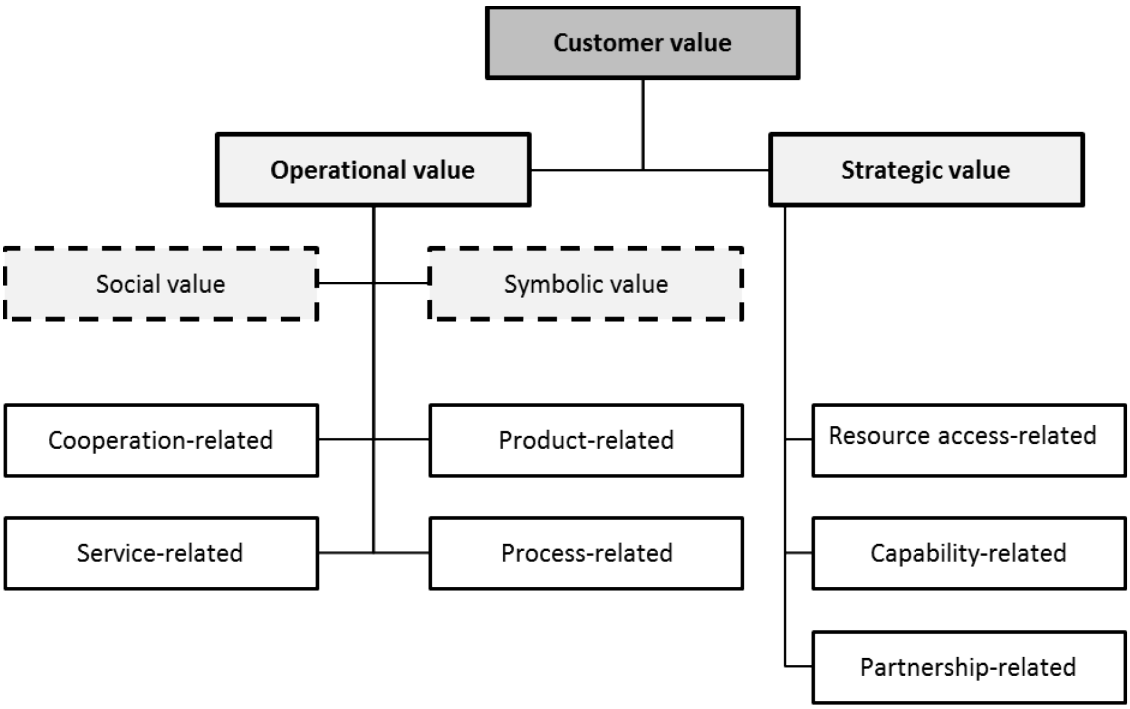

Figure 6: The customer value construct (adopted from Töytäri et al. (2014b) and modified by Hervonen (2014))

The proposed value construct seems to be comprehensive by including all major value elements of a customer organization. This enables credible and reliable value quantification in value-based selling. The value potential can be evaluated individually for each element and the total value can be conveniently communicated in economic terms.

Although it has been identified that communicating value in monetary terms is most effective (Terho et al., 2012), it is necessary to consider so-called softer elements of value as well. These softer elements include, for example, work culture, team spirit, work motivation, employee self-fulfillment, and personal and organizational value conformance. The softer values are included in the social and symbolic value dimensions which is why it is necessary to retain the dimensions under the operational value dimension in the customer value construct.

A major weakness in the trade-off perspective of customer value is the fact that the perceived benefits and sacrifices of an exchange do not reveal the actual desires and needs of the customer (Khalifa, 2004). Needless to say, it is essential for a supplier to understand what is most important in the customer's business in order to have an impact on it. For this reason, the construct of value presented earlier is not enough on its own when practicing a value-based approach in sales. It is advantageous to integrate a means-end perspective to the quantification process in practice (Hervonen, 2014). The means-end angle helps the supplier identify the importance of each value element to the customer and, as a result, the value quantification based on the customer value construct is much more accurate and credible. Quantifying customer value is discussed in more detail later on in this chapter.

2.2 Value creation and value exchange

This section will examine how value can be created and what is required of a company to be able to offer superior customer value. Relating to the creation of value, the section also covers the exchange of value in business transactions.

2.2.1 Creating superior customer value

A company's capability in creating value builds upon a deep understanding of the customer's business and its needs, and utilizing this knowledge to strengthen the appropriate product and service expertise (Sullivan, Peterson, & Krishnan, 2012). Developing such capability will eventually translate into producing superior solutions for customers which most likely will reflect on gross profit (Sullivan et al., 2012). For securing a value creation capability, studies have shown that a company should include following elements in its core strategy: selecting right targets and customer segments, understanding customers' needs, their value chain, and their value perceptions, and creating value propositions that match them (Anderson & Narus, 1998; Flint et al., 1997; Ravald & Grönroos, 1996; Slater & Narver, 1995; Woodruff, 1997). However, a value creation strategy alone is not sufficient. It must be supported by a suitable company structure and an opportune culture as well as fundamental processes that are designed to create customer value (Slater & Narver, 1995; Woodruff, 1997).

Value creation can be seen as a vertical chain of activities meaning that one entity procures resources, for example labor, capital or raw materials, which it uses to produce goods and services for its customers (Brandenburger & Stuart, 1996). However, in practice, value creation usually is not that straightforward. The manufacturing processes of the procuring entity is not creating value which is then exchanged. Instead, value arises by the customer consuming the seller's offering in its value-creating processes (Grönroos, 2008; Terho et al., 2012; Vargo & Lusch, 2004).

In the conceptualization of customer value and value creation, some researchers have elected to apply the relationship perspective which emphasizes the interactive dynamic of customer-supplier relationships and the interdependence of both parties (e.g., Ballantyne, Frow, Varey, & Payne, 2011; Lindgreen & Wynstra, 2005; Ulaga & Eggert, 2005; Vargo & Lusch, 2004). This perspective evidently suggests other priorities and criticalities for value creation than the traditional linear activity of conceiving, producing and delivering value (Haas et al., 2012). Consequently the concept of value creation in business-to-business markets should include the interactive nature and characteristics of the process (Corsaro & Snehota, 2010; Edvardsson, Tronvoll, & Gruber, 2010; Grönroos, 2011).

In order to sustain superior business performance, which is almost exclusively based on creating and capturing customer value, a company must identify, create and leverage a distinct competitive advantage (Barney, 1986, 2002; Porter, 1996, 2008; Powell, 2001). It is important to notice that in order to capture value, a company must first be able to create value (Blois & Ramirez, 2006; Brandenburger & Stuart, 1996; Coff, 1999; Gosselin & Bauwen, 2006). There is a general agreement on the creation of superior customer value being a central element in the long-term success and survival of a company (Eggert, Ulaga, & Schultz, 2006; Slater, 1997; Woodruff, 1997). However, a company cannot claim to create superior customer value without conducting assessments to evaluate the value of an offering (Anderson et al., 2009). With superior customer value it is meant that the products and services of a certain company are more attractive to a customer than the equivalent offerings of competitors.

2.2.2 Value exchange

According to a study by Töytäri et al. (2011), very few companies recognize the value potential of their offerings. This is a troubling discovery, keeping in mind that several researchers have recognized that competitive advantage can be gained through the understanding of value and the ability to create customer value (e.g., Anderson et al., 2009; Butz & Goodstein, 1996; Hogan, 2001; Ulaga & Chacour, 2001; Woodruff, 1997). Additionally, this inevitably leaves companies with a suboptimal share of value in an exchange (Brandenburger & Stuart, 1996).

The ultimate incentive for concluding business and value exchange is that the transaction creates value for everyone in the business relationship (Töytäri & Rajala, 2015; Walter, Ritter, & Gemünden, 2001). This requires the perceived benefits to outweigh the sacrifices made (Anderson et al., 2009; Khalifa, 2004). The reason to engage in exchange is simply because another party is able to produce or manufacture a product, or execute a task, more effectively and efficiently than a company would internally (Drucker, 1973; Hunt & Bashaw, 1999; Möller & Törrönen, 2003; Slater, 1997; Vargo & Lusch, 2004). By outsourcing these efforts, the company is able to acquire the product or service with fewer resources but still capitalize on all its benefits (Ulaga, 2003). At the same time, the manufacturer or supplier gains return for its services. As a result of the transaction, all parties consider to be better off than what they would have been without the dealing (Borys &

Jemison, 1989; Ulaga, 2003; D. T. Wilson & Jantrania, 1994) which is why the transaction can be referred to as value exchange.

Value exchange is essentially an agreement of trading use value for exchange value. These are two different perspectives on value. Use value exhibits how well a customer perceives that the offering matches their needs and how much value they would realize by consuming the offering (Bowman & Ambrosini, 2000). Exchange value, on the other hand, is the value realized by the seller in the exchange. How much exchange value the seller is able to capture depends fully on how much the buyer is willing to pay for the use value of the offering (Bowman & Ambrosini, 2000). In value exchange, the use value can be seen as benefits received and the exchange value represents sacrifices made by the customer. However, the two components, use value and exchange value, are not exhaustive because value exchange includes other benefits and sacrifices also.

Value exchange doesn't necessarily have to be an individual transaction or unique business dealing. Value exchange can also extend over a long period of time essentially referring to related parties receiving value through a business relationship. In research (Lusch, Vargo, & Tanniru, 2009, p. 20), a value relationship or value network has been defined as follows:

"a spontaneously sensing and responding spatial and temporal structure of largely loosely coupled value proposing social and economic actors interacting through institutions and technology, to: (1) co-produce service offerings, (2) exchange service offerings, and (3) co-create value"

Value-based mentality can be applied to business exchange. By focusing on creating significant customer value and real business impact, a supplier is able to maximize exchange value and ensure capturing value that exceeds their sacrifices (Töytäri, 2015b). Recent research suggests that companies focusing on value-based exchange are performing better than companies with traditional reactive sales efforts (Aberdeen Group, 2011; Terho et al., 2012). A key element of value-based exchange is the idea of value proposition exchange (Anderson, Narus, & van Rossum, 2006; Kowalkowski, 2011; Terho et al., 2012). A value proposition is a specification of the expected benefits gained from an offering, their relation to customer's needs and the required sacrifices of the customer (Ballantyne et al., 2011; Frow & Payne, 2011; Payne, Storbacka, & Frow, 2008). According to Vargo and Lusch (2004), suppliers can only make value propositions which are realized as value after being consumed by the customer's value creating processes.

2.3 Quantifying customer value

Deriving from the complex and multifaceted nature of customer value, it is evident that quantifying it is not a simple task. Researchers have approached the issue from different perspectives and therefore literature provides various methods and frameworks for the quantification process (e.g., Anderson et al., 2009; Day, 1999). Regardless of existing methods, a major challenge in quantification is the fact that, to a large extent, value is dictated by who makes the assessment.

However, the ambiguity of customer value can also be seen as a great opportunity. Since customers have inaccurate knowledge on the value of offerings, a supplier can strengthen its position in a business dealing, or relationship, by credibly demonstrating the value potential of their offering (Anderson & Narus, 1998). Tangibly quantifying and communicating value to the customer is especially significant with new innovative offerings which often times are more expensive than conventional and established alternatives (Töytäri, 2015b). Not only is value quantification effective for justifying the price of the offering, it is also an excellent way to shift the focus of the negotiations from price to business impacts (Kaario, Pennanen, Storbacka, & Mäkinen, 2003). This improves the value share opportunity of the exchange significantly alongside demonstrating understanding of the customer's business and providing material to customer's decision makers (Kaario et al., 2003).

Before any quantification endeavors, it is critical that the supplier educates himself sufficiently about the customer's business. The reason being: in order to understand potential value and impacts of an offering, it is mandatory to comprehend how the customer's business works (Anderson et al., 2009; Kaario et al., 2003; Terho et al., 2012; Töytäri et al., 2011). Only with proper insight on the customer's business it is possible to identify the salient value elements which must be included in the quantification for it to be convincing and credible (Anderson et al., 2009). These value elements are often times the differentiating factors between a supplier and its competitors (Hervonen, 2014).

When research on the customer's business has been successful and the most important value elements have been identified, the value assessment should be conducted in a modular fashion (Anderson et al., 2009). Modularity refers to addressing each value category individually and determining all possible benefits and sacrifices relating to it. Appropriate metrics for quantifying the impact need to be selected for each value element (Töytäri et al., 2011). Furthermore, it is effective to identify the current situation of each metric because this enables comparison of value potential as well as contributes to the discussion when communicating the quantification (Kaario et al., 2003). Comparison to current situation helps the customer to understand the expected business impact of the offering. The comparison in metrics can also be done to the offering of a competitor, a conventional and established solution, or some other previous experience (Kaario et al., 2003).

When calculating the individual effects to customer value of each salient value element, the supplier can, for example, utilize the simple equation presented by Day (1999). According to Day (1999), value is the perceived increases to gross profit subtracted by the perceived total cost of ownership of the offering. The equation functions as a mechanism for distinguishing the perceived value that the customer receives by purchasing a product or service. Figure 7 illustrates the customer value equation as proposed by Day. Furthermore, Day's equation supports the claim that it is most effective to communicate the business impacts of the offering to the customer in economic terms.

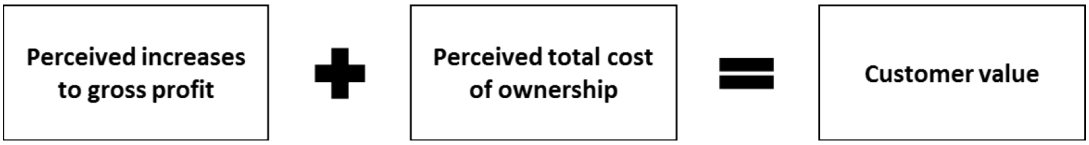

Figure 7: Customer value equation as presented by Day (1999)

By combining the individual effects of the salient value elements, the supplier can calculate a rigorous and credible aggregate impact on the customer's business (Töytäri et al., 2011). With tangible knowledge on the value potential of the offering, the two parties need to openly discuss the proposition and evaluate the underlying assumptions and calculations (Anderson & Wynstra, 2010; Terho et al., 2012; Töytäri et al., 2011). However, Anderson and Narus (1998) recommend that the customer is engaged in a dialogue throughout the quantification process. By doing so, the supplier can ensure a realistic and credible calculation of the value as well as continuously validate the quantification logic and avoid possible disagreements later on in the process (Anderson & Narus, 1998). Additionally, committing the customer to the quantification process from the beginning is the most effective method to communicate the value.

Often it is beneficial to provide additional evidence of the value of the offering in order to reinforce the quantification results in the eyes of the customer (Anderson & Wynstra, 2010; Töytäri et al., 2011). Evidence can be provided in the form of reference cases, for example. Reference cases are previous customers with whom the post-purchase business impact of an offering has been documented and proven. Presenting reference cases is an effective way to convince the potential customer of the supplier's ability to create value (Anderson & Wynstra, 2010; Töytäri et al., 2011). The importance of relevant reference cases in closing future business deals is the main reason why suppliers should conduct careful post-purchase analyses to verify and document realized customer value (Anderson et al., 2009). Other reasons to measure real business impacts of an offering are that it demonstrates commitment to the business relationships and it enables the use of more sophisticated value sharing models (Töytäri et al., 2011).

2.4 Shift from reactive to proactive sales strategies

The commoditization of offerings, intensified competition, global sourcing practices and high customer buying power are key drivers for the prevailing struggles of industrial suppliers (Hervonen, 2014; Töytäri, 2015b). Due to decreasing margins and several competing substitute products, companies have been forced to reinvent their earnings logic. According to Töytäri (2015b), especially industrial companies are currently in a fundamental transition phase changing their business models from product-centered, reactive exchange to relationship-focused, value-based exchange. Embracing the modern relationship perspective of conducting business, companies seek to create value in buyer-seller relationships rather than unilaterally develop products and services (Gadde & Snehota, 2000; Palmatier, 2008; Payne & Holt, 1999; Ulaga & Eggert, 2006).

The value-based approach to managing business markets manifests, for example, as a shift towards proactive sales strategies. Partially, the proactive approach is a precondition for selling innovative solutions which customers have not yet experienced (Töytäri, 2015a). The innovative offerings are an essentiality for reclaiming competitive advantage (Anderson & Narus, 2004). However, the value of such solutions must first be demonstrated to the customer before one can expect them to buy. Hence the need for value-based sales efforts.

Another incentive of value-based selling is that it opens up the opportunity to shake rooted pricing customs and harness business impact-focused value sharing. Traditionally pricing customs utilize market prices, competitor prices and production costs as pricing references (Anderson & Narus, 1998; Ingenbleek, Debruyne, Frambach, & Verhallen, 2003). Currently the majority of industrial suppliers that have been forced to accept these pricing customs find themselves in severe profitability challenges (e.g., Nagle & Holden, 1995). The aim of value-based exchange is to shift the focus from current pricing mechanisms to the customer-perceived value of an offering, and in this way enable both parties to capture a balanced share of value from the relationship.

As several studies have shown, the role of the sales function is often much more central than what management and marketing literature have suggested (Haas et al., 2012; Homburg, Jensen, et al., 2008). In addition, companies are currently preferring sales strategies with a strategic focus rather than traditional operational ones one (Geiger & Guenzi, 2009; Leigh & Marshall, 2001; Storbacka et al., 2009). This shift towards a more analytical and senior-management involving sales practice supports the growing role of services, and companies pursuing high value-added solutions and value co-creation (Grönroos, 2008; Tuli, Kohli, & Bharadwaj, 2007; Ulaga & Reinartz, 2011; Vargo & Lusch, 2004). However, the adoption of such a sales approach requires distinct capabilities that are not included in traditional salesmanship.

Since business-to-business companies are changing their earnings logic from products to services, researchers have noticed that this requires the sales function to reflect the relationship dominant processes (Sheth & Sharma, 2008). The traditional view of the sales function in management and marketing literature is administering the linear process of conceiving, producing and delivering customer value by understanding customer needs and offering a bundle of products and services to match these needs (e.g., Weitz & Bradford, 1999). As a result of the shift from reactive to proactive sales strategies, it is evident that the value-creating logic of sales must be re-evaluated.

Haas et al. (2012) state that perceived value partially originates from the social interactions between parties which constitutes three new roles to the sales function: understand customer's perceptions of value, facilitate mutual apprehension and create collective benefits. The first new role underlines the importance of taking into account the subjective perception of value of the customer, and recognizing the key characteristics of the product or service for them (Haas et al., 2012). When developing novelty offerings, it is beneficial in the sense of value creation to execute the process in a close conversation with the customer, harnessing the business relationship and ensuring the inclusion of the customer-specific value perceptions (Haas et al., 2012). These roles set prerequisites for successful adoption in the sales function.

With the apparent shift from reactive sales strategies to proactive approaches, business-to-business companies are reinventing commerce (Vandermerwe & Rada, 1988) by renewing business models, replacing products with solutions and services (Wise & Baumgartner, 1999), searching new sources of revenue and seeking novel competitive advantages other than costs (Töytäri, 2015b). A successful shift to and adoption of the proactive strategy requires acquiring relevant capabilities within the sales organization.

2.5 The central role of the sales function

In business-to-business markets, the key elements have been conceiving, producing and delivering customer value (Anderson & Narus, 1998). The function more or less responsible for delivering value in business relationships with customers is the sales organization (Haas et al., 2012). Interestingly, however, the definition and identification of the sales function is not always self-explanatory. It may be debated that every department of a business organization is a part of the sales function (Storbacka et al., 2009).

The perspective of the sales function in marketing and management literature is explicitly changing from an operational view to a strategic one (Geiger & Guenzi, 2009; Leigh & Marshall, 2001; Storbacka et al., 2009). Sales used to be seen as a linear process beginning from understanding customers' needs and ending in fulfilling them with an appropriate bundle of products or services (e.g., Weitz & Bradford, 1999). The current orientation is towards a sales function that aspires to create customer value in business relationships (Töytäri & Rajala, 2015; Walter et al., 2001). To support this, the value creation capability of a company has been identified to correlate with its ability to manage customer relationships (Sullivan et al., 2012). Since the central role of sales in value creation has been widely agreed upon, it seems surprising that the conceptualization and clarification of the value creating role is nevertheless lacking (Haas et al., 2012).

In order for the sales function to be able to perform in a customer-oriented and value-focused way in value creation, the value-based approach to selling must be successfully adopted in the organization. Adoption should be evaluated with appropriate measures and performance indicators. Furthermore, to ensure that the sales function successfully takes on the new sales approach critical capabilities must be developed or acquired into the organization.

By moving from a product oriented value creation mentality to a relationship oriented one, sellers gain more knowledge on the value of products and services when consumed in the customers' value-creating processes (Graf & Maas, 2008; Ravald & Grönroos, 1996). Product oriented refers to the traditional reactive sales process where the product or service has a central role, and value is the difference between perceived quality and price (Graf & Maas, 2008; Terho et al., 2012). In contrast, the relationship oriented value creation extends the scope of the sales process into a proactive one as well as adds new elements to value, such as the relationship, the process, and risk components (Graf & Maas, 2008; Ulaga & Eggert, 2005; D. T. Wilson & Jantrania, 1994). The value-based sales approach of industrial suppliers essentially provides an opportunity for improved value sharing in the business relationship by means of value-based pricing (Hinterhuber, 2004; Töytäri & Rajala, 2014; Töytäri, 2015a).

2.6 Synthesis: the context of value creation and exchange

Customer value is a varying and highly ambiguous concept mainly due to its subjective and evolving nature. Value has been in the center of great interest, both among researchers as well as companies, and researchers have proposed several constructs to define customer value. The relevancy of each alternative construct depends on the perspective and the setting from which it is examined. In the context of this thesis, it is appropriate to approach customer value with the view that the customer is the one who determines the value of an offering. Furthermore, this value is evaluated based on Zeithaml's (1988) idea according to which customer value is the tradeoff between benefits received and sacrifices made by the customer.

Quantifying and communicating customer value is essential in order to enable the customer to fully understand the value potential of an offering and the possible business impacts that could be realized. However, the quantification process is by no means a straightforward one. For a credible and rigorous estimate of the customer value, research suggests a modular approach to quantification. The salient value elements of each customer value dimension are identified and individually evaluated for the benefits and sacrifices of the exchange. Quantifying value in modules makes the process more explicit, transparent and objective. The customer should be involved throughout the process to ensure feedback and validity as well as facilitate the communication of the quantification logic and underlying assumptions.

Creating and capturing value has always been the essence of conducting successful business, and this is especially true with the prevalent shift towards value-based strategies of industrial suppliers. As a response to business challenges, business-to-business companies are reinventing their earnings logic and business models. Suppliers are seeking to create real value and business impact for customers in order to shift the focus of the exchange on to customer value and in this way capture a fair share of value.

3. Theoretical research

The third chapter of the thesis is the second part of the literature study. This part is the genuine theoretical research which provides theoretical findings. The theoretical research examines the value-based selling process and identifies metrics for evaluating successful application. In addition, the key capabilities required for application are recognized. Furthermore, the literature study distinguishes fundamental capabilities for the successful adoption of the value-based approach in the sales function, as well as relevant metrics for assessing the adoption process. The empirical study of the thesis is designed according to the findings of the theoretical research which means that the literature findings are validated in the empirical case study.

The chapter begins with introductory sections on dynamic capabilities, value-based selling, and value creation in relationships. These sections are followed by the research segments; first on the adoption of value-based selling, followed by the application of the approach. The research segments construe findings from various studies, discuss how they relate to each other, and constitute a theoretical framework on the issue. The chapter ends with a synthesis of the theoretical findings from the literature research which lays the groundwork for the empirical study of the thesis.

3.1 Maintaining competitive advantage

Even though a company may have a strategic focus on creating superior value to customers, this does not ensure lasting competitive advantage. The ever evolving business environment, changing customer preferences, and competitors' innovations and advancements require a company to continuously re-evaluate and adapt its performance. For example the case company of this thesis has been performing very well for several years, yet it is undergoing an organizational change which aims to retain the competitive advantage for years to come. Researchers have studied competitive advantage extensively and according to some the enabling factor for sustained competitive advantage is dynamic capabilities (e.g., Eisenhardt & Martin, 2000; Teece, Pisano, & Shuen, 1997). Dynamic capabilities essentially function as the drivers for creating, evolving and reinventing resource utilization in order to conceive competitive advantage in the market (Henderson & Cockburn, 1994; Teece et al., 1997). Some dynamic capabilities are for effective integration of new resources, while others enable appropriate reassembling of resources within an organization (e.g., Hargadon & Sutton, 1997; Leonard-Barton, 1992; Szulanski, 1996). Furthermore, a common challenge for companies is how to distribute scarce resources within the company, for which dynamic capabilities may enable optimal allocation (e.g., Burgelman, 1994).

Dynamic capabilities were first introduced by Teece et al. (1997), and defined as:

"The firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments."

Eisenhardt & Martin (2000) introduced a very similar but slightly more extensive definition:

"The firm's processes that use resources – specifically the processes to integrate, reconfigure, gain and release resources – to match and even create market change. Dynamic capabilities thus are the organizational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split, evolve, and die."

Based on their definition, Teece et al. (1997) refer to a company's ability to adapt and maintain competitive advantage as dynamic capabilities. The concept includes the term 'dynamic' to illustrate a company's capacity to reshape capabilities according to the changing business environment. Adapting and maintaining one's competitive advantage entails achieving new and innovative ways to leverage existing assets and resources (Leonard-Barton, 1992).

It can be rationalized that dynamic capabilities play a critical part in adopting and applying a value-based sales approach. Research has shown that the heterogeneity of companies' resources and capabilities has a determinative impact on the success of a value-focused strategy in sales (Töytäri, 2015b). The dynamic capabilities that are present in a company define how a value-oriented strategy is introduced and adopted in an organization, and whether existing assets and resources are successfully leveraged in the new approach. This means that management has a central role in the adoption and the application of a proactive, value-focused sales strategy.

Dynamic capabilities refer to distinct, attributable and routine-like processes, for example product development, merging, and strategic decision making (Eisenhardt & Martin, 2000). Managers utilize certain routines, or dynamic capabilities, to rearrange company resources, acquire new ones and discard dispensable ones, unite and connect them, and create new value generating strategies (Grant, 1996; Pisano, 1994). At a more strategic level, dynamic capabilities can stand for manager's routines to reassemble collaboration networks between different units of a company and in this way generate novel, synergistic resource combinations (e.g., Galunic & Eisenhardt, 2001). Dynamic capabilities vary according to industry characteristics and changes in the market. According to Eisenhardt & Martin (2000), in moderately dynamic industries, dynamic capabilities are routine processes with meticulous, analytical and fixed execution, and foreseeable outcomes. However, in fast-paced industries, the dynamic capabilities take an experience-dependent and delicate form with unforeseeable outcomes (Eisenhardt & Martin, 2000).

Dynamic capabilities define a company's ability to sustain competitive advantage through changes in the business landscape, yet even dynamic capabilities can get outdated and require overhaul. For developing dynamic capabilities, repeated practice has been identified as an important learning method (Eisenhardt & Martin, 2000). Since dynamic capabilities have been identified to embody a routine-like nature this means that in order for an activity to constitute a dynamic capability it must first reach the threshold of routine performance (Helfat & Peteraf, 2003). Thus, taking a first crack at an activity does not constitute a capability. Practice and repetition enables people to internalize the process which in turn facilitates the formation of effective routines (Eisenhardt & Martin, 2000). Moreover, even though an activity has reached the threshold of routine and a certain level of reliability, this doesn't indicate that the capability would have achieved an optimal level of functionality (Helfat & Peteraf, 2003).

The evolution of dynamic capabilities is not only dependent on systematic practice of an activity, but is also affected by personal experiences, failures and successes, of individuals (Eisenhardt & Martin, 2000). Especially small losses provide required motivation and meaning to encourage effective learning (Sitkin, 1992). In comparison, major failures can cause the emergence of mental defense blocks and denial which prevent learning (Eisenhardt & Martin, 2000). Similarly, greatly successful events are often poor learning experiences because they hinder the attention to self-development (Eisenhardt & Martin, 2000).

Typically dynamic capabilities are the result of persistent commitment to specialized resources (Winter, 2003). These long-lasting commitments can be considered as opportunity costs by tying assets. The more exceptional and elusive the activity the higher the costs of the commitment tend to be (Winter, 2003). Evidently for the costs of the commitments to be rational, it is crucial that the accrued capabilities are exploited adequately. This suggests that maintaining a capability which is rarely if ever utilized is simply a cost burden (Winter, 2003). However, it is neither advisable to avariciously seek for opportunities to change because this may result in additional costs. Winter (2003) points out that there is a definite balance required between the costs of a dynamic capability and the use that is actually made of it. Figure 8 illustrates this balance between the opportunity costs and actual usage.

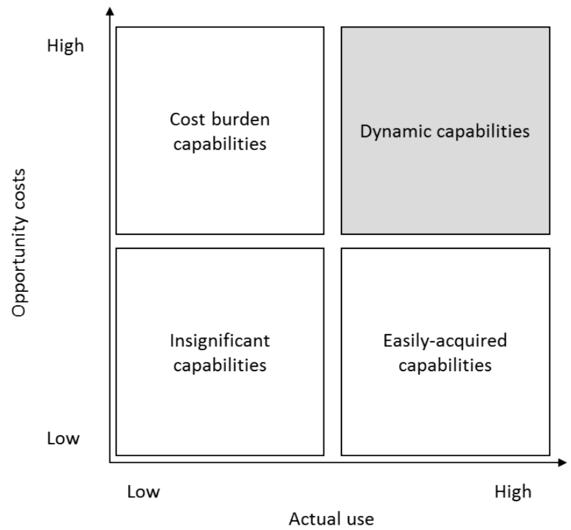

Figure 8: Balance between the opportunity cost and actual use of capabilities

The concept of dynamic capabilities has assumed a significant position in research of change in organizational capabilities. As can be derived from the definition provided by Teece et al. (1997), dynamic capabilities are not directly involved with the outputs of a company. Instead they have an indirect impact by affecting the operational capabilities which depict the production and marketing of goods and services. As a result, the predominant tenet is that dynamic capabilities facilitate change in other operational capabilities (Rumelt, 1984; Teece et al., 1997; Wernerfelt, 1984).

Thus, dynamic capabilities are relevant considering the implementation of, for example, a new value-oriented sales approach. However keeping in mind that, although dynamic capabilities essentially create, combine and reshape operational capabilities, it can be argued that even operational capabilities themselves have the potential to accommodate change (Helfat & Peteraf, 2003).

3.2 Value-based selling

Recent studies have provided evidence supporting the claim that if a company leverages a value-based approach in sales, it is able to capture more value and deliver superior performance (Aberdeen Group, 2011; Vitasek et al., 2012). In general, the value-based sales approach reflects the core of innovating service offerings which emphasize co-creation of value instead of delivering “prefabricated” value (Ballantyne et al., 2011). In business relationships, it is important to keep in mind that the greatest value creating potential derives from relationship benefits, and in fact the core offering provides very little to this (Eggert et al., 2006). Nevertheless, in industrial value-based exchange these benefits or sacrifices of sustaining a business relationship tend to be left out of the equation when evaluating transactions (Ravald & Grönroos, 1996).

Researchers have encapsulated the nature of value-based selling by presenting various brief definitions. Value-based selling can be summarized as sales function behavior which is based on creating customer value (Terho et al., 2012). Similarly, Töytäri et al. (2011) propose that the essence of the value-based approach is to proactively understand and improve the customer’s business. By co-creating value in value-based selling, it is possible to positively impact the performance and profitability of both the buyer and the seller (Anderson & Narus, 1998; Kaario et al., 2003; Töytäri & Rajala, 2015b).

Studies on value-based selling have indicated that the approach includes three critical activities, namely understanding the customer’s business, developing and quantifying the value proposition and communicating it to the customer (Kaario et al., 2003; Terho et al., 2012; Töytäri et al., 2011). However, before engaging in these core activities the sales function must be able to identify the opportune business cases so it can employ valuable resources early on in a dialogue with the potential customer (Kaario et al., 2003; Töytäri et al., 2011). Concerning the initial contact, it is crucial to involve customer’s management from high enough in the organization in order to ensure decision making power (Kaario et al., 2003; Töytäri et al., 2011). After successful engagement of the customer's organization, the sales function can conduct value research (Anderson & Narus, 1998; Kaario et al., 2003), which includes understanding the customer's and the customer's customer's business, identifying value creation potential, and quantifying the value (Anderson et al., 2009; Kaario et al., 2003; Terho et al., 2012; Töytäri et al., 2011). Figure 9 illustrates the dependency of the critical activities of value-based selling.

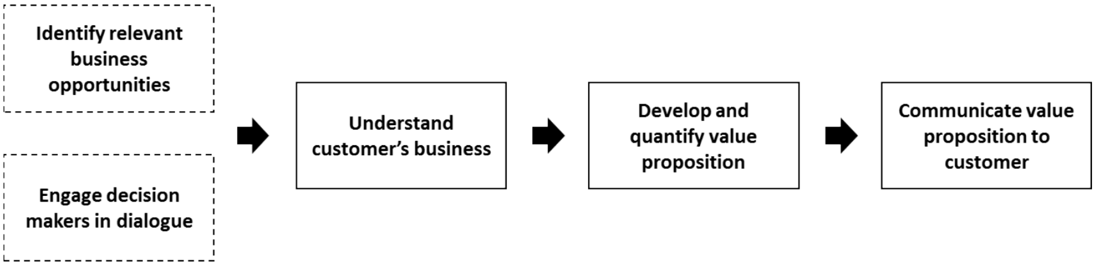

Figure 9: Critical activities of value based selling

Value-based selling differs significantly from traditional selling which imminently sets new qualifications for the sales function. However, it is still relatively unclear what kind of competences and capabilities the value-based approach specifically demands. Some studies have identified that value-based selling at least requires appropriate consultative and calculative skills (Anderson et al., 2007; Kaario et al., 2003). The calculative skills are required for quantifying value and the consultative skills are beneficial for credible communication of the value proposition.

Value-based selling requires substantially greater effort and more resources than reactive selling, which is why it is important to identify the business cases and the customers suitable for targeting with the value-based approach. The proactive and early engaging sales efforts translate into significant management, relationship selection, opportunity and other costs regardless of the outcome of the business case (Hogan, 2001). Two dimensions that should be evaluated, considering a customer's attractiveness for value-based selling, are the customer's readiness to partner and the potential value of the business relationship (Kaario et al., 2003). Obviously if both elements are high, the customer is a suitable target for value-based sales efforts. Töytäri et al. (2011) further suggest the characteristics of the offering to be considered in evaluating the attractiveness of a business case. According to their study, an offering is most opportune for the value-based approach if its real value is either unknown or at least underestimated. Distinctive for these kinds of offerings is the obscure perception of value for the customer, for example, in novel innovations or solutions combining products and services (Töytäri et al., 2011). Figure 10 illustrates the three dimensions for evaluating the attractiveness of a business case for value-based selling.

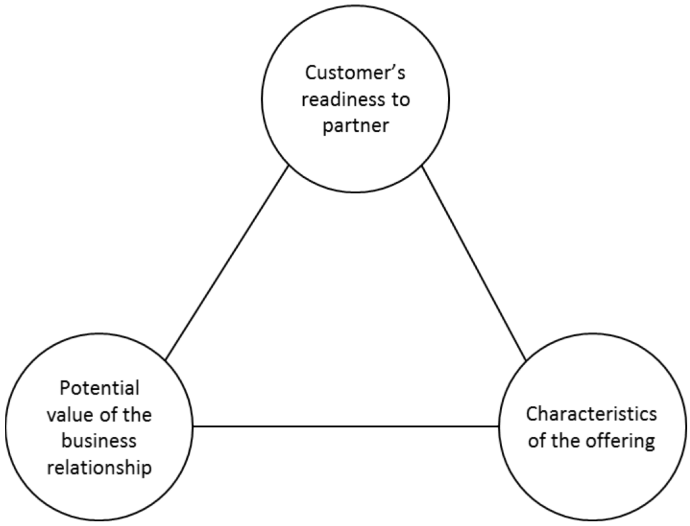

Figure 10: Three dimensions for evaluating the attractiveness of a business case for value-based selling (adopted from Kaario et al., 2003; Töytäri et al., 2011)

Effective value-based selling also requires the sales function to actively analyze customer business and identify potential problems as well as aim to devise offerings or solutions which are mutually valuable (Liu & Leach, 2001). A value-oriented mindset is beneficial for the sales function as it ensures the pursuit and formulation of offerings that could have a significant impact on the customer's profits (Terho, Eggert, Haas, & Ulaga, 2015). Rather than selling a bundle of generic products or services, offering value enables focusing on customer challenges in a tailored way by working in parallel with the customer's value-creating processes (Tuli et al., 2007). As Kaario et al. (2003) present in their study, value-based selling concentrates on customer challenges and processes that differ significantly from what traditional product and service selling addresses. Customer orientation and commitment to serving customers goals must reflect from all the functions of a company in order to successfully manage the increased complexity of offerings, an inevitable by-product of a value-focused sales approach (Töytäri et al., 2011).

In their study, Terho et al. (2012) produced the following definition for value-based selling:

“The degree to which the salesperson works with the customer to craft a market offering in such a way that benefits are translated into monetary terms, based on an in-depth understanding of the customer's business model, thereby convincingly demonstrating their contribution to customers’ profitability.”

Based on the definition by Terho et al. (2012) it is imperative to quantify the value proposition specifically into monetary terms in order for the customer to truly grasp the business impact opportunity. The better the customer understands the value potential, the higher the success probability of the value-based sales effort. When quantifying the value potential of an offering, it is important to involve the customer in the process as well as prefer an iterative method in order to ensure an assessment that is as reliable and as transparent as possible (Anderson et al., 2009; Anderson et al., 1993, 2007).

The activities required by value-based selling can be considered risky, time-consuming and resource-intensive raising the cost of potential business relationships which in return may have serious adverse effects on profitability (Hogan, 2001). The value-based sales efforts tie up valuable resources and inevitably incur additional costs up-front, referring to Figure 11, while the customer relationship value remains unknown for a long time (Hogan, 2001). The sales function has a pivotal role in making the value-based efforts worthwhile and leveraging the benefits of a customer value-focused approach. The combination of early engaging sales efforts and value-based creating of the offering can be utilized to increase the probability of closing a sales deal. This applies especially to cases concerning novel, innovative products, the value of which the customer is not able to assess based on earlier experience or substitutes (Töytäri, 2015b).

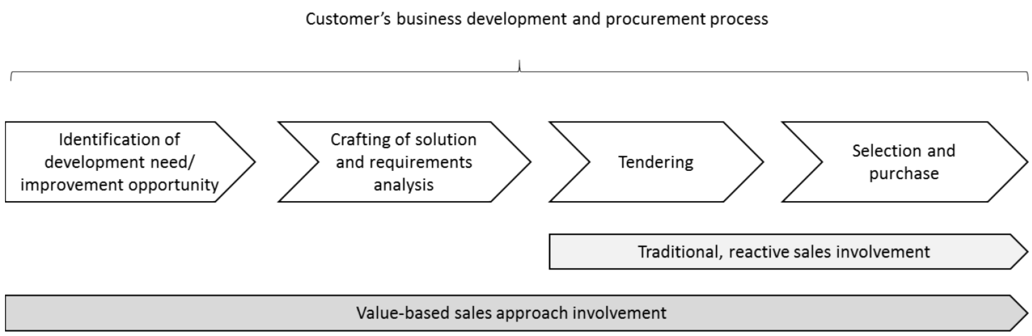

Figure 11: Traditional, reactive sales and value-based selling involvement in customer's business development processes

3.2.1 Value-based pricing

The most important objective of value-based selling is to open up the opportunity for new value sharing methods. A potential new value sharing method is, for example, value-based pricing which utilizes customer-perceived value as the pricing reference instead of competitors' prices or production costs (Töytäri & Rajala, 2014). By incorporating value-based pricing into business transactions, supplier companies can increase the currently deflated margins. However, a prerequisite for applying this kind of pricing is the capability to conclusively quantify and credibly communicate the value creation potential to the customer (Anderson & Narus, 1998).

The objective of utilizing value-based pricing as a result of successful value-based selling is not only beneficial for the supplier, instead it holds benefits for the customer as well (Hinterhuber, 2004). Leveraging value-based pricing, however, demands a reliable business relationship for the divided risk as well as a unique position as a supplier (Castaldo, Premazzi, & Zerbini, 2010; Kaario et al., 2003), and thus it is applied only seldom in industrial business transactions (Liozu et al., 2012). Several obstacles have been identified to complicate the application of value-based pricing: affecting customer's desired values is problematic, quantification and communication of value potential is ambiguous, and most importantly switching the pricing reference focus from costs to value is challenging (Töytäri & Rajala, 2014).

Value-based pricing essentially builds on the two reference points of price formulation: the buyer's willingness to pay and the seller's opportunity cost (Brandenburger & Stuart, 1996). These reference points fundamentally delimit the total value that is created in an exchange, as illustrated in Figure 12 (Brandenburger & Stuart, 1996). Buyer's willingness to pay portrays how much the customer is ready to pay for the use value that it receives in an exchange. On the other hand, the seller's opportunity cost represents the sacrifices made to gain exchange value.

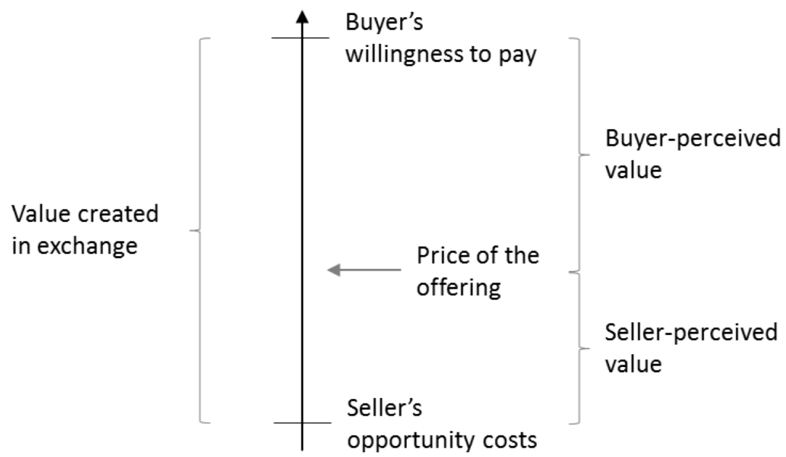

Figure 12: Determining price based on seller's opportunity costs and buyer's willingness to pay (adopted from Brandenburger & Stuart, 1996; Töytäri et al., 2015)

In order for a transaction to happen, the price must be attractive for both parties. On one hand, for the buyer the price must be low enough to enable the benefits of the transaction to be higher than the sacrifices (Töytäri, 2015b). On the other, the price must be higher than production costs for the seller to ensure long-term survival and success (Töytäri, 2015b). When the price fulfills both conditions, the perceived value of the exchange is positive for both parties (Töytäri, 2015b). However, the quantity of captured value is seldom equal for both parties; an imbalance that value-based pricing aims to correct.

Shifting the pricing focus to perceived value enables the seller to negotiate on an appropriate share of value in the exchange (Töytäri & Rajala, 2014). The price of the offering can be set on a level where both parties receive a fair share of the perceived value. However, it is important to keep in mind that in order for the transaction parties to discuss value sharing, they must first make sure that they are on the same page concerning the value proposition of the offering (Töytäri, 2015a). As illustrated in Figure 13, the seller and the buyer have a partially shared perception of value in addition to which both sides have their individual value conceptions (Töytäri, 2015a). The shared portion of perceived value can be negotiated on for value sharing, and with value-based pricing the value shares can be justified. Notably, the value capture of each party is not just what they receive from value sharing. The individual value conceptions of both parties are often not understood by the opposing side which enables each party to capture additional value in the exchange (Töytäri, 2015a).

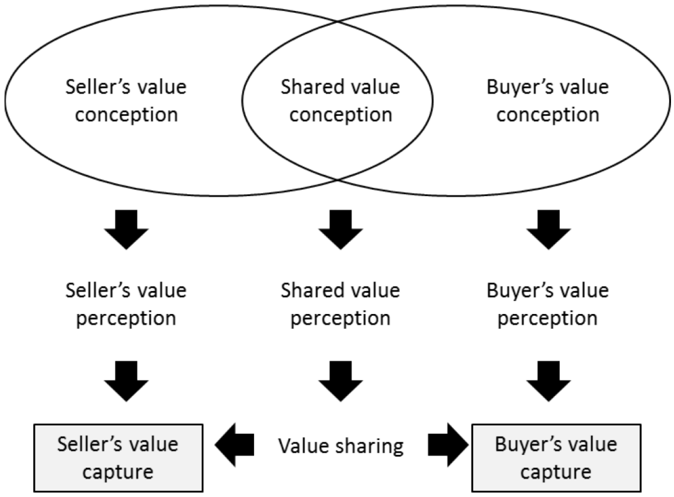

Figure 13: Value capture constituting from value sharing and individual value conceptions (adopted from Töytäri, 2014)

3.3 Value creation in relationships

Typical for value that is created in close interaction of the exchange parties is that it emerges from the business relationship, it is mutually founded and it is in continuous change (Corsaro & Snehota, 2010). The value created in relationships arises through the interactions of the parties which means that companies should attempt to conceive favorable conditions for interactions and ensure that relevant actors find each other (Ford, Gadde, Håkansson, Snehota, & Waluszewski, 2008; Haas et al., 2012). According to Haas et al. (2012), consequently it is important that parties properly manage the interaction opportunities and the emergent situations in order to seize any value discoveries arising from the unexpected turn of events. The consequences of the various interactions between business partners are impossible to predict which is why companies should remain open-minded for possibilities and vigilant for surprising discoveries (Cantù, Corsaro, & Snehota, 2012; Ford et al., 2008). Unexpected situations should be leveraged to develop, design and refine offerings with true business impact for the customer (Haas et al., 2012).

The interactions through which value emerges in relationships (Ford et al., 2008; Haas et al., 2012) can take a variety of forms. The temporal scope of the interaction can, for example, be very long, deriving from a partnership with a long shared history, or it can be brief and spontaneous (Ford et al., 2008). The content of the interactions may vary greatly also; it can involve the logistics of large quantities of goods, or it is possible that no physical products are relocated in the interaction (Ford et al., 2008). Moreover, interactions can vary in how demanding the matter at hand is. The process can require sophisticated problem-solving skills, but it is also possible that the issue is straightforward (Ford et al., 2008).

For value creation in relationships it is essential that the sales function comprehends that it is no longer a persuader in the exchange and the customer is not just a passive party in the process (Lusch et al., 2009). The sales function should act as a supporting partner who ensures that the thoughts of the customer are heard, understood and considered in the supplier organization (Haas et al., 2012; Lusch et al., 2009). In their study, Haas et al. (2012) state that productive value creation in business relationships requires sales to prioritize four key tasks: identify and activate relevant business cases, promote two-way communication in the relationship, strive for mutual learning with the customer, and organize co-control of critical value-creating processes (Figure 14). However, the parties of the business relationship together agree on the responsibilities dedicated to the sales function of the seller (Töytäri, 2015a). The responsibilities may range from leading and propelling the whole value co-creation process (Haas et al., 2012), to simply acting as a "servant leader" (Greenleaf, 1998) realizing the wishes of the customer.

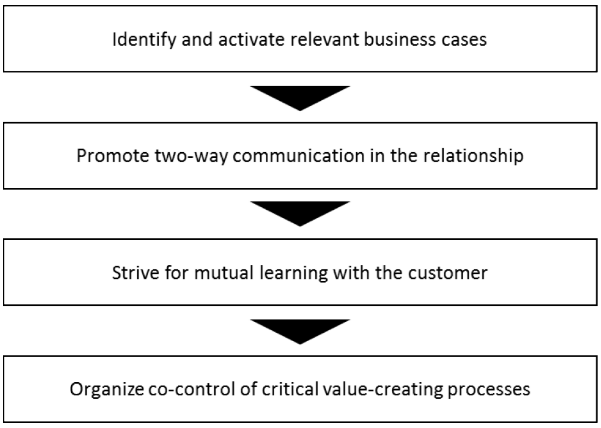

Figure 14: Four key tasks of the sales function in productive value creation in business relationships (Haas et al., 2012)

Value creation in relationships is profoundly linked to value-based selling because the sales approach emphasizes the significance of business relationships and the interactions thereof in creating value (Grönroos, 2008; Vargo & Lusch, 2004). An effective sales function must aspire to work together with the customer, understand the business dynamics, realize how the supplier company could contribute to the customer's business performance, design offerings accordingly, and credibly communicate the potential business impact to the customer (Anderson et al., 2009; Weitz & Bradford, 1999). When assessing the value that is created in the relationship, it is essential to keep in mind that the perception of value is affected by various social and cognitive processes of both business partners (Corsaro & Snehota, 2010; Payne et al., 2008).

3.4 Adoption of value-based selling

A strategic focus on customer value creation will not have an impact on a company's performance, unless the required processes, capabilities and activities are successfully implemented on all levels of the organization. Concerning value-based selling this means, for example, that the sales function must learn to understand and credibly communicate the superior value propositions to customers (Anderson et al., 2007). These capabilities essentially aren't included in traditional sales capabilities and activities. The reason why credible demonstration of the offering's value is integral to successful value-based selling is because it is the most salient element in sales communication (Terho et al., 2012). Obviously, every supplier claims that their offering provides value for the buyer, but the differentiating factor is that a value-based sales function provides persuasive and credible evidence for the claims (Anderson & Wynstra, 2010).

No matter how innovative and thorough the value-focused strategy that is created in order to gain competitive advantage, it must be fulfilled with the appropriate actions to create performance outcomes. Even identifying the right actions is not enough to achieve the desired outcomes, if these actions are not executed properly. Regarding this axiom, researchers stand as one when it comes to evaluating the importance of effective implementation in linking strategy to performance outcomes (e.g., Govindarajan, 1988; Strahle, Spiro, & Acito, 1996). As Sterling (2003) states, "effective implementation of an average strategy, beats mediocre implementation of a great strategy every time." Furthermore, without successful implementation it is impossible to evaluate the impact of a strategy and its execution on performance outcomes.

Based on what literature emphasizes in value-based selling, an analytical framework can be created to study adoption (Mike Moorman & Vogel, 2012; Töytäri & Rajala, 2015; Töytäri, 2015a). The framework focuses on five underlying elements which have to be addressed in order to successfully adopt a value-based sales approach into an organization. These underlying elements guide the adoption process towards relevant and effective actions. Besides these elements, the same precepts apply as to every transformation process. Figure 15 presents the five different elements and managerial questions that should be addressed in the process.

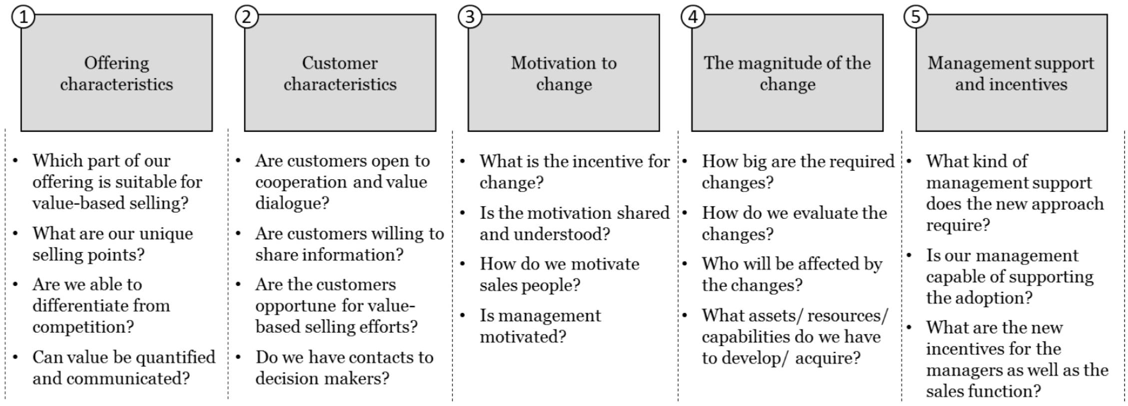

Figure 15: Five underlying elements for successful adoption of value-based selling

The first element concerns the offering portfolio of the seller. It is important to evaluate where the offerings stand in terms of value-based selling potential. The fact is, every offering and solution is not appropriate for a value-based approach. In order to differentiate from alternative solutions, communicate significant value creation potential, and have a true impact on the customer's business, the seller's offering must include unique selling points that are emphasized in the value propositions (Grönroos, 2008; Möller & Törrönen, 2003; Terho et al., 2012). By understanding the characteristics of their offering portfolio, the seller comprehends which solutions are opportune when implementing the value-based sales approach.

Similar to offerings, not all customers are appropriate for value-based selling. It can even be possible that a value-based approach is not suitable for an entire industry. Customers must be ready to engage in a relationship and open for value dialogues with the seller for true value creation to happen (Terho et al., 2012; Töytäri et al., 2011). A seller should examine its customer portfolio in order to categorize which customers are opportune for value-based sales efforts and which are not. Although the seller's offering might have unique value creation potential, a value-based approach is useless if the customer is not willing to share information or engage in a conversation on the value proposition (Aberdeen Group, 2011). When implementing value-based selling, it should be taken into account which customers are targeted.

The implementation of really anything in an organization requires the understanding of the motivation of the change. The reason and the goal of the change should be clearly defined and communicated to every stakeholder who will be part of the change. The motivation element is also related to the overall "want to change" of the individuals who are affected. The level of motivation and, on the other hand, resistance should be examined in order to choose appropriate implementation methods (Guth & MacMillan, 1986; Rumelt, 1984; Shin, Taylor, & Seo, 2012). In the case of a new value-based sales approach, the transformation process requires the sales function to acquire new capabilities and add new activities to their work routines, and this will not happen unless each individual has the motivation to undertake this change (Shin et al., 2012).

Element number four refers to the fact that for successful implementation it is essential to perceive what the current situation is, what the goal-state looks like, and how big is the difference between these two states. By realizing the magnitude of the transformation needed to implement the value-based approach to selling, the implementation process can be planned and managed effectively (Whelan-Berry, Gordon, & Hinings, 2003). Furthermore, it is easier to monitor the change process and understand how far the transformation is at every moment.

Lastly, the role of the management cannot be emphasized enough in organizational change (Gill, 2002), and this is true also in transforming selling to a value-based approach. Management is responsible for training the new approach, giving example, providing motivation, ensuring learning and demanding application. The role of management in the change process is to act as a catalyst and a supporting function (Moran & Brightman, 2001). In order for the managers to perform effectively, they must be incentivized appropriately (Kotter, 1995). New and relevant incentives must be introduced into the organization, not only to managers but to the sales people as well (Shin et al., 2012), in order to further support the success of the change to a value-based approach.

3.4.1 Change management of the adoption process

Change management can be defined as *"the process of continually renewing an organization's direction, structure, and capabilities to serve the ever-changing needs of external and internal customers"* (Moran & Brightman, 2001). As is mentioned in the definition, change can often be considered a continuous process without a distinct beginning or end. Furthermore, the nature of the change is also indefinite because organizational change is seldom foreseen well ahead. Instead, usually it is unpredictable, reactive, discontinuous, ad hoc and triggered by an organizational crisis (Becker, Lazaric, Nelson, & Winter, 2005; Luecke, 2003).

The ability to cope with change and succeed in change programs is an essentiality in the highly competitive and fast-paced business environment of today (Luecke, 2003). Nevertheless, the majority of change programs fail (Luecke, 2003; Moran & Brightman, 2001), possibly up to 70 percent which is a popular failure rate attributed to organizational change. However, Hughes (2011) argues that there is no valid or reliable evidence to support such a high figure.

In change management it is important to keep in mind that organizational change essentially includes three separate change processes: organizational transformation, group level change, and individual change (Whelan-Berry et al., 2003). Figure 16 illustrates how the three change processes relate to each other and how the actions on different levels of change are connected. It is notable how the vision and plans for change are created on the higher levels, but nevertheless it all comes down to realizing a transformation in the behavior of each individual.

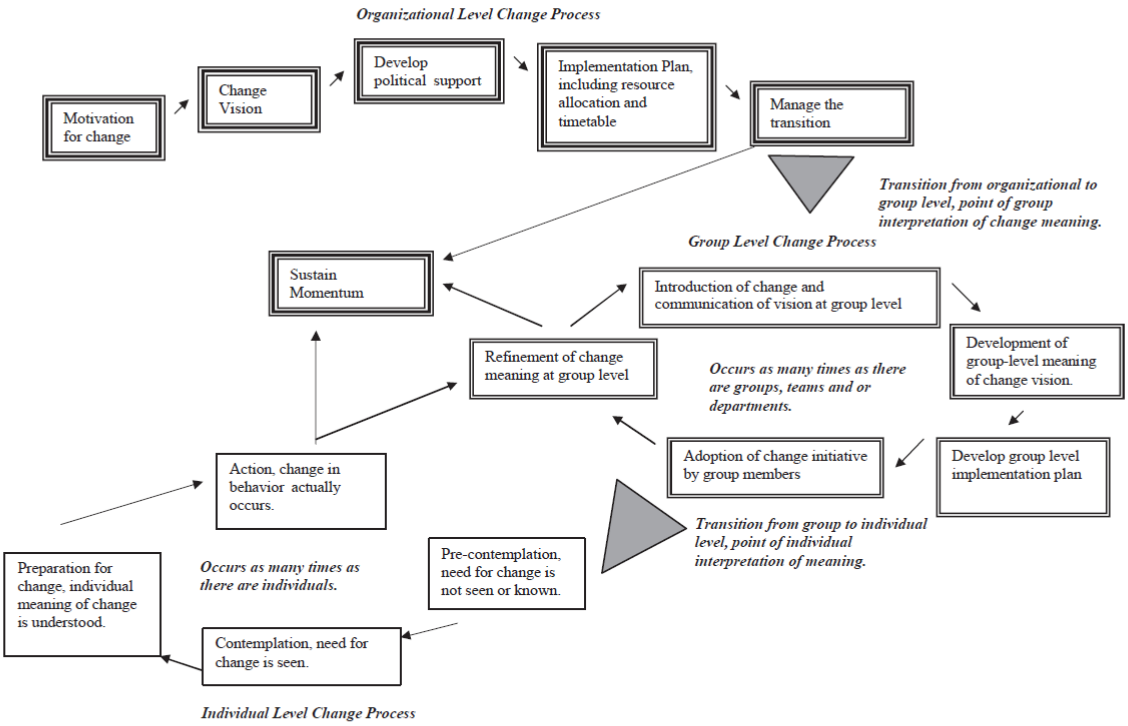

Figure 16: Model of planned organizational change processes (adopted from Whelan-Berry et al., 2003)

Most of the times there is a definite challenge to alter the prevalent behavior of individuals. Organizational inertia refers to the resistance to change that is experienced in companies (Rumelt, 1984). Resistance has been defined in several ways among researchers. It can be considered *"a multifaceted phenomenon, which introduces unanticipated delays, costs and instabilities into the process of a strategic change"* (Ansoff, 1988), or it can be seen as *"any conduct that serves to maintain the status quo in the face of pressure to alter the status quo"* (Zaltman & Duncan, 1977). Rumelt (1984) identified that organizational inertia derives from five elements: distorted perception, dulled motivation, failed creative response, political deadlocks, and action disconnects. Table 1 describes what each element means and how it affects organizational inertia.

Table 1: The five elements driving organizational inertia (Rumelt, 1984)

Element driving inertia	Definition	Reasoning
Distorted perception	A firm may not look long enough into the future, it may deny information that is contrary to beliefs, or their thinking is exposed to the weaknesses of "group thinking".	Change is dependent on perception. If perception is distorted, then change may be impeded.
Dulled motivation	The temporary increase in costs attributed to change, the possible cannibalization of current sales, or risking the benefits of status quo impede motivation.	Even if perception is accurate, organizations may resist change because the need is not felt strong enough.
Failed creative response	Management lacking in speed, complexity, reactive mindset, or strategic thinking hinders the choices and timing of change.	Inability to choose the right direction out of difficulties.
Political deadlock	Organizational political disagreement deriving from personal interests, personal beliefs or fundamental values.	Complicates a company's decision making and change planning.
Action disconnect	The basic drivers of action disconnects are: leadership inaction, embedded routines, collective action problem, and capabilities gaps.	If necessary actions are not carried out successfully, the desired outcomes of change are not reached.

Resistance to change is often considered the biggest barrier for transformation by managers (Schein, 1988), but this belief has very little theoretical support to it (Waddell & Sohal, 1998). Waddell and Sohal (1998) argue that resistance in fact includes several advantages, for example: it keeps an organization wary that not all change is good, it draws attention to the uncertainties of change, it provides an influx of energy, and it encourages considering alternatives. According to Waddell and Sohal

(1998), these advantages should be leveraged in managing the change process. An effective way to benefit from the advantages and simultaneously manage resistance is to sufficiently participate the staff in the process (Waddell & Sohal, 1998). The participative management method utilizes carefully designed two-way communication, information sharing and consultation to improve employee commitment to change instead of them just complying with the process (Kotter, 1995; Makin, Cooper, & Cox, 1989; White & Bednar, 1991). Moreover, a leadership model with effective vision and strategic thinking, but lacking emotional and behavioral leadership is impotent (Gill, 2002).

Guth & Macmillan (1986) identified that a certain kind of resistance proposing a significant obstacle for the implementation of strategies formulated by senior management are middle managers with low or negative commitment to the change. The commitment to change can be evaluated on two levels: firstly, the individual’s willingness to apply significant effort on behalf of the organization, and, secondly, recognizing the organization's objectives so that individual and organizational goals are closely aligned (Cook & Wall, 1980; Morris & Steers, 1980). Mohrman (1979) discovered that a key factor affecting the level of commitment of middle managers is “political access” which refers to an individual’s opportunity to gain an appropriate forum on the issues that are important to him.

3.4.2 Key capabilities for successful adoption

Concerning a value-focused strategy in sales, the sales and product managers are responsible for ensuring that the sales function comprehends the strategy or the changes in strategy of the company (Strahle et al., 1996). Moreover, the sales management’s activities should be in line with the competitive strategy’s primary objectives and enhance the central performance dimensions of that strategy (Viswanathan & Olson, 1992). Due to the big role of sales management in implementing a new sales approach, Strahle et al. (1996) argue that sales managers should be involved in developing sales strategies. Evidently, the functional level decisions made in an organization should reflect the chosen business level strategy (Strahle et al., 1996). However, several researchers suggest that there is often a lack of congruence between the decisions made on different levels of an organization (e.g., Sterling , 2003; Viswanathan & Olson, 1992).

When matching sales activities and account management policies with business unit strategies, key capabilities (Table 2) to consider include: specifying the responsibilities of the sales function, recruiting and selecting new employees, targeting appropriate sales function training, and determining case by case the type of account relationship and sales approach (Churchill, Ford, & Walker, 1990). How the sales function's work relates to the work of other business units and what its role is in the organization entity should be apparent to every sales person. If the responsibilities of different business units are well defined, change processes are less painful and operations appear seamless on the customer interface.

Table 2: Key capabilities for matching sales activities and account management policies with business unit strategies (Churchill, Ford, & Walker, 1990)

Key issues
Specify responsibilities of the sales function
Recruit and select new employees
Target appropriate sales function training to current employees
Determine type of account relationship for each sales case
Determine sales approach for each sales case

According to Churchill et al. (1990), a sales function can be organized in three different ways: geographically, according to products, or according to customer orientations. The sales organization structure is also affected by the sales approach, customer priorities and the nature of customer relationships. For example, if customer relationships play an important role in sales, the sales organization should have a pyramid structure because the customer accounts require a high ratio of sales managers to the number of salespeople (Viswanathan & Olson, 1992). Similarly maintaining a superior level of service and demanding the sales function to perform a variety of activities requires a high degree of sales support (Viswanathan & Olson, 1992).

In sales person recruitment it is important to identify the critical competencies which the new recruit should possess (Churchill et al., 1990). For example, value-based selling demands distinct capabilities from the organization (the salient ones presented in Table 3), and these capabilities are easier to recruit than to train (Aberdeen Group, 2011). Similarly dynamic capabilities can be easier to recruit than to develop (Teece et al., 1997). However, it is not always possible to recruit all the required capabilities which is why appropriate training must be targeted within the sales function (Churchill et al., 1990). Training and acquiring necessary capabilities into the organization and the sales function can be referred to as talent management.

Table 3: Salient capabilities of value-based selling

Capabilities	Purpose
Conduct business research	Ability to conduct comprehensive value research is an integral part of successful value-based selling
Information retrieval	Retrieving information from potential customers, asking the right questions and understanding the unique selling points are key to creating good value propositions
Value quantification	Rigorously, realistically and credibly quantifying the value potential of the offering is essential for the sales negotiations with the customer
Credible and persuasive communication	Communication skills play a big role in demonstrating the value potential of the offering, explaining the quantification process and negotiating on value sharing
Customer relationship management	One objective of value-based selling is to deepen the relationship with the customer in order to improve value creation, and the sales function tends to these relationships

Regarding the other key issues for aligning activities with business unit strategies, the complexity of the offering, and the relationship with the customer, they affect the approach that should be employed in each sales case (Viswanathan & Olson, 1992). For example value-based selling is an opportune approach if the offering is novel and the potential value of the customer relationship is high. Shapiro (1988) presents four different types of customer relationships: transaction selling which is a straightforward and quick process, system sales which involves more complex products and takes a longer time than transaction selling, major account management to which individual sales are secondary to the beneficial relationship, and strategic account relations which refers to select customers who are partners in long term joint ventures. It is highly advisable for companies to categorize their customers similarly to Shapiro's (1988) proposition in order to understand which accounts should be targeted with value-based selling.

3.4.3 Required resources for successful adoption

Employees' commitment to organizational change is debilitated by the fact that they often experience change as intrusive and consider the process ambiguous, disrupting their routines and social networks which they rely upon when completing tasks (Beer, Eisenstat, & Spector, 1990; Strebel, 1996). Furthermore, transformations often lead to increased workloads due to the assignment of new tasks, adjustment to new processes, and introduction of new goals (e.g., Bordia, Hobman, Jones, Gallois, & Callan, 2004; Pollard, 2001).

In organizational change employees may experience two waves of stress, first from the anticipation of change and second from the experience of losing resources (Shin et al., 2012). In order to execute a successful implementation process, the company and its management must be capable of preparing for and tending to both waves of stress. This means that, firstly, the feeling of uncertainty before a transformation process must be controlled, and, secondly, the company must ensure that employees possess sufficient resources to cope with the implementation process. Figure 17 illustrates the two waves of stress.

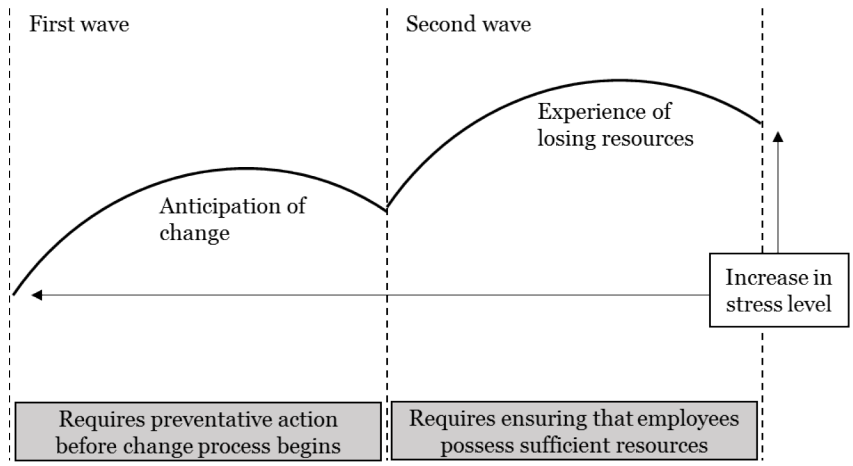

Figure 17: The two waves of stress experienced by employees in change processes

The first wave of stress effectively stems from a feeling of uncertainty. Many researchers consider uncertainty as the biggest barrier for successful implementation of strategies (e.g., Bordia et al., 2004; Pollard, 2001). Studies show that three key administrative activities for coping with uncertainty are: design of organizational structure (Chandler, 1962;

Galbraith, 2002), design of control systems (Govindarajan, 1988), and selection of managers (Gupta & Govindarajan, 1984). With these administrative activities it is possible to lower the level of uncertainty before a change process and control the stress of anticipation of employees.

The experience of losing resources causes the second wave of stress. Shin et al. (2012) propose that employees' commitment to change can be increased and sustained by developing their individual resources before commencing transformation activities. Shin et al. (2012) identified two individual resources that play a critical role in constituting the commitment level of employees: organizational inducements and employee psychological resilience. With improved resource reserves, employees' can better deal with the strains and stress deriving from the changes (Shin et al., 2012). These resources will not only elevate the attitudes and behavior of employees, but consequently will also have a positive effect on organization-level outcomes (Kim & Mauborgne, 2003).

Organizational inducements refer to valued outcomes, tangible and intangible ones, which employees receive as compensation from the organization (Hom et al., 2009). Naturally the level of organizational inducements varies between employees and there are several reasons for that: different jobs, structural and relational positions, and levels of managerial support (Shin et al., 2012). Organizational inducements obviously play a significant role in the implementation of a new sales strategy. It is important to notice that the compensation of the sales function always includes two elements: financial (tangible) and psycho-social (intangible) (Viswanathan & Olson, 1992). Organizations offer various inducements (Table 4) to sales people in exchange for their contributions (e.g., time, effort, expertise, creativity, and loyalty) to organizational performance (Shin et al., 2012). According to Shin et al. (2012), employees who perceive that they receive high levels of organizational inducements are strongly committed to the company and organizational change. This is due to the resources enabling them to experience positive emotions and develop high-quality social relationships in the organization (Shin et al., 2012).

Table 4: Common organizational inducements offered to the sales function (adopted from Hom et al., 2009 and Tsui et al., 1997)

Tangible	Intangible
Competitive salary	Training for future jobs
Sales bonuses	Career development
Promotion opportunities	Performance feedback
Health care	Communication with management
Other medical benefits	Participation in decision making

The other important resource is employee psychological resilience which is defined to be “a ‘trait-like’ (i.e., stable) ability to bounce back from adversity and hardship and to flexibly adapt to shifting demands” (Block & Kremen, 1996). Implementation and change essentially come down to the transformations that occur in individuals. This is why it is crucial to ensure that employees possess the personal mental resources to facilitate changes. Several researchers have identified psychological resilience as a significant resource for individuals to manage their ever-evolving situation in life (e.g., Block & Kremen, 1996; Waugh, Fredrickson, & Taylor, 2008). Resilient people have been identified to proactively prepare for adversity and effectively utilize psychological resources to minimize the impact of stressful events (Waugh et al., 2008). Studies have shown that employees with high levels of psychological resilience are likely to experience positive emotions in challenging situations, thus enabling them to view the outcomes of organizational change optimistically and respond to the change process more favorably (Shin et al., 2012).

The additional mental and physical energy provided by the resources support various coping behaviors as well as protects the employees against dysfunctional psychological states sparked by the stressful environment (Hobfoll, 2001). With insufficient resources, employees are easily overwhelmed by anxiety and fatigue which undermines their ability to control stress (Wheaton, 1985). For example, appropriate level of inducements not only helps employees prepare for and cope with organizational change, but it also contributes to their confidence and perception of their future (Shin et al., 2012). According to research, employees demonstrate clear increases in work attitude and performance level when they receive a relatively long-term commitment to inducements from the organization (Hom et al., 2009).

Shin et al. (2012) draw four managerial implications from their study:

1. Managers must be aware of the importance of employees' behavioral engagement and commitment to organizational change.
2. Employees' commitment to the change process can be increased by ensuring them high levels of organizational inducements before the change begins.
3. Managers must consider psychological resilience as an important characteristic for the content of training sessions and new recruitment.
4. It is effective to enhance positive emotions and social relationships of employees to improve their commitment to change.

3.4.4 Performance indicators to evaluate adoption

Research does not directly offer measures or performance indicators for evaluating the success of the adoption of a value-focused strategy in sales. However, the progress and the maturity of the adoption process can be monitored indirectly by tracking how the critical activities and sales efforts of the application of the approach are fulfilled. This is an effective method to evaluate the success of the adoption because evidently adoption is not optimal unless all of the identified critical elements of application are being executed. For example if relevant pre-sales analytics are not executed or sales people are not systematically reporting fundamental information of sales cases, value-based selling will not be successful. Another example is, failure to quantify or communicate value in most sales cases would indicate that the sales function does not possess necessary capabilities or sufficient management support to succeed. In other words, the measures for evaluating adoption would be indicators of important sales activities that should be performed at different stages of a successful value-based sales process. These theoretical performance indicators are identified together with the theoretical gate criteria of the application of the approach in the following chapter.

Nevertheless, there is a general method for measuring the progress of an implementation process. Sirkin et al. (2005) argue that managing soft issues, such as culture, leadership and motivation, which have been on center stage of scientific research are not enough for success in organizational change. Sirkin et al. (2005) propose that companies pay more attention to hard factors in change since they are easily measurable, simple to communicate internally as well as externally, and can be influenced quickly. Examples of relevant hard factors in organizational change are: time to complete, number of people required in change, and financial results. According to Sirkin et al. (2005), hard elements should be considered before managing soft elements because otherwise the transformation will fail before the soft elements even come into play.

A big challenge for executives managing organizational change, is the fact that research offers an abundance of aspects to control in transformations which causes resources and skills to be spread out thin. This is why Sirkin et al. (2005) propose that a transformation is managed by paying attention to only a few critical elements. These elements are referred to as the DICE factors: project duration (D, time between project reviews), performance integrity (I, capabilities), organizations commitment (C_1 backing from sponsors and executives, C_2 support from those involved in the implementation), and additional effort required from employees (E). The DICE factors are used to calculate a score with the formula presented in Figure 18. Based on the score it is possible to evaluate how the implementation is progressing.

$$D + (2 \times I) + (2 \times C_1) + C_2 + E$$

Figure 18: Formula for calculating the DICE score

The first element D, duration, refers to especially the time between project reviews, and Sirkin et al. (2005) suggest these are done bimonthly because 8 weeks between reviews is frequent enough to ensure that the process is progressing in the right direction. Organizational change often depends on the quality of change teams which is why executives should ensure that the best staff is engaged in the change process and not tied up to day-to-day routine work. However, it is important to ensure that the normal work of the company is not too much affected by the change process. The company must establish sufficient commitment to the change process, and this requires especially improving the commitment of influential executives and the employees who are affected by the changes. Oftentimes employees already have their hands full before a change process which evidently cause them even more work. It is vital that the change project team pays attention to the amount of additional work inflicted on the employees. (Sirkin et al., 2005)

3.5 Successful application of value-based selling

The recipe for successfully applying a value-based sales approach can be identified by analyzing the organizational buying and selling processes. The reason for this is that the application of value-based selling ultimately translates into various activities and objectives at each stage of the value-based sales process. Consequently, the outcomes of value-based selling differs in nature and in significance at each phase of the process.

According to Töytäri (Töytäri, 2015a), the organizational buying process includes four different stages. These stages are (Figure 19): identification and prioritization of needs, development of a solution vision which satisfies the identified requirements and constraints, search for and evaluation of the alternative solutions, and commitment to the preferred choice after negotiations. At each stage, the buyer focuses on different issues (Figure 19) which it aims to solve or conclude before moving on in the process.

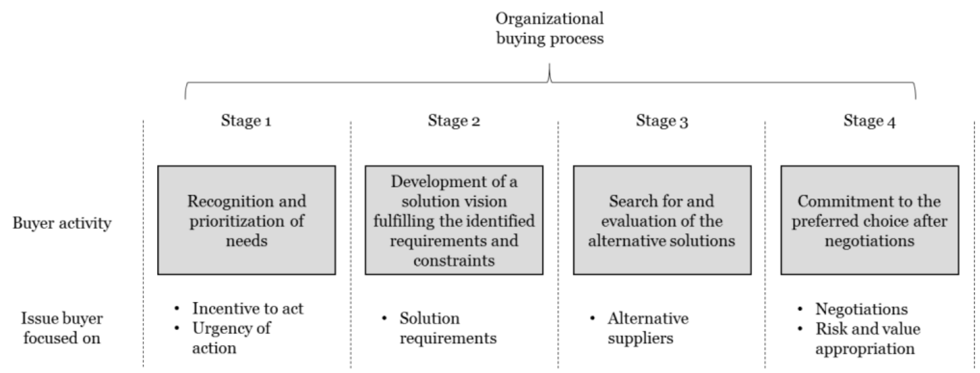

Figure 19: The four-stage organizational buying process

The organizational buying process and its four stages can be directly linked to a corresponding organizational selling process (Figure 20) (Töytäri, 2015a). The correspondence of these processes derives from the fact that value exchange is a multilateral transaction which requires reciprocal actions from all parties (Töytäri, 2015a).

The traditional organizational selling process gets involved at the "search for alternative solutions" stage of the buying process. This is a very late stage to get involved in the buying process, but it is the lamentable reality with reactive selling. If we compare the traditional selling process with a value-based selling process (Figure 20), a great advantage for the latter one is getting involved right from the beginning of the customer buying process.

In fact, the value-based selling process begins already before contacting a potential customer, namely with the value research and relevant customer identification. As can be seen from Figure 20, the value-based selling process includes five stages compared to the two stages of traditional, reactive selling (Töytäri, 2015a).

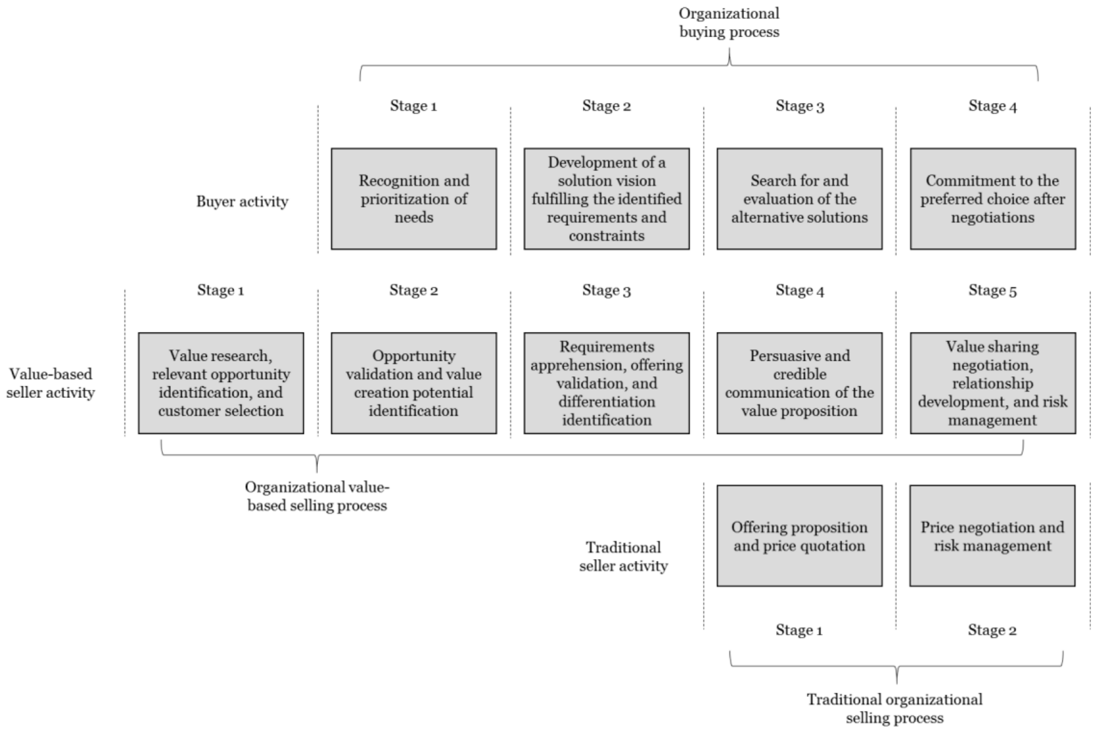

Figure 20: The link between the organizational buying process and the value-based selling and the traditional selling process

The first three stages of the value-based sales process focus especially on ensuring that the sales case is opportune for value-based selling. In stage 1, the sales function aims to gather information on the customer, its business and its current situation and needs. Based on this value research, the sales function will better understand if the customer is suitable for value-based selling and whether it is a company with whom it is worthwhile to build a deeper relationship.

Stage 2 of the value-based selling process is for accumulating knowledge on the particular situation of the customer. By engaging the customer in a dialogue at this stage already, the sales function can help the customer better understand what options it has and possibly affect the customer's perception of the requirements of the solution and the urgency of its situation. A vision of the solution is created in this stage and based on the vision, the sales function can evaluate if there is potential for value creation and if there are unique selling points. It is possible that the solution for the customer's specific situation includes only generic requirements, which would indicate that utilizing a value-based approach is not applicable.

After creating a vision of the solution, the sales function is able to evaluate how well their own offering matches the requirements of the customer. This evaluation happens in stage 3 of the process and the purpose of it is to decide whether their offering is suitable in order to continue with the value-based sales efforts. In the discussions with the customer in stage 2, the sales function has had the opportunity to influence the customer's perception of the required solution, and in this way ensure the relevance of their own offering. However, it is possible that their own offering does not fulfill all of the requirements of the solution which would evidently decrease the value that could be created in the customer's business. Consequently the effectiveness of value-based selling in such a case is significantly lower.

3.5.1 Opportunity management

According to Töytäri (Töytäri, 2015a), the organizational buying and selling processes can also be linked to the different stages of opportunity management. This is an interesting point, keeping in mind the importance of effective opportunity management in value-based selling. Furthermore, referring to the links between the organizational buying and selling processes, it is essential to acknowledge these connections and strive to understand where the buyer is in the buying process in order to apply the right actions for that stage (Töytäri, 2015a). Targeting right actions to the customer's specific position in the buying process improves the seller's chance to influence the customer's value perceptions and decisions as well as effectively progress the sales opportunity (Töytäri, 2015a).

Töytäri (Töytäri, 2015a) identifies that effective opportunity management is a key process in order to achieve competitive advantage with a value-based sales approach. As mentioned earlier, value selling opportunities include higher complexity, cost, risk and duration compared to traditional selling. This is why opportunity management is an essential process alongside value-base selling since it enables ensuring strategic fit when selecting customers, evaluating value creation and appropriation potential, and determining the value and risk of the relationship (Töytäri, 2015a).

Figure 21 illustrates opportunity management alongside the organizational buying and selling processes, and presents how the different stages of each process are linked. The opportunity management process emphasizes recognizing distinct elements in the relationship and the sales opportunity at each stage. If the elements exist, the case has potential for value-based selling and the opportunity is progressed. Evidently, the opportunity management process requires making decisions on whether to go forth with the value-based approach or not, and this means that the managers responsible for opportunity management must have ownership on the value-based selling process as well.

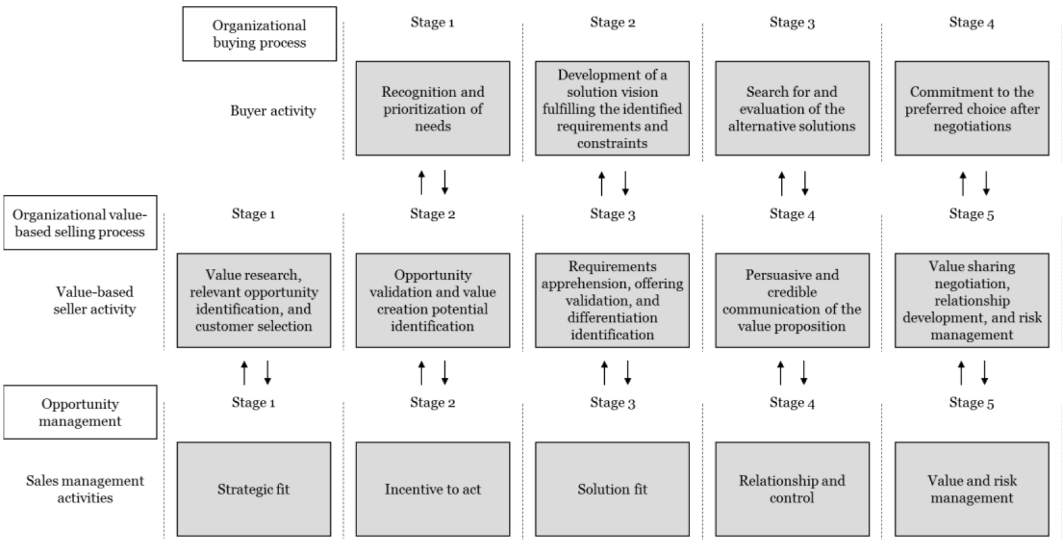

Figure 21: The correspondance of the different stages of the organizational buying process, organizational value-based selling process, and the opportunity management process (adopted from Töytäri, 2015a)

In the first stage of the opportunity management process, the aim is to decide whether the customer organization is suitable for the seller's efforts and has a strategic fit. This is done by utilizing the activities of the first stage in the value-based selling process. If the customer is identified as appropriate, next the sales organization needs to understand if the situation and the needs of the customer are opportune. The activities in the second stage of the value-based sales process provide support for deciding if there is sufficient incentive to advance with the value-based sales opportunity.

In the third stage of the opportunity management and value-based selling process, the objective is to understand if the seller's solutions are suitable for the customer's situation and if they truly include unique selling points. In the final stages of the opportunity management process, the goal is to ensure the preferred supplier status with the customer and conclude a profitable agreement with identified and manageable risks. Töytäri (Töytäri, 2015a) suggests two criteria for evaluating the competitive status of the seller company itself in relation to the alternative solution providers. The first criteria is assessing how well the value-based sales process succeeded in building powerful relationships with the customers buying center and decision makers. The second criteria is establishing common milestones with the customer indicating commitment from the buyer's side.

3.5.2 Principles for creating performance indicators and gate criteria

Appropriate metrics for evaluating the success of value-based selling can be identified for each stage of the sales process. By examining the sales efforts at different stages of the organizational sales process, it is possible to establish convenient performance indicators which lead to gate criteria for evaluating the approach. The performance indicators and gate criteria are identified with an analytical approach that is based on existing literature. The approach is constructed by the following three Principles.

Principle 1

Performance indicators and gate criteria are determined based on the different stages of the value-based sales process.

As Töytäri (Töytäri, 2015a) presents, the value-based sales process is a five stage process (Figure 20) and each stage includes critical activities and distinct objectives. Due to the resource-intensive and time-consuming nature of value-based selling, it is vital to ensure that the customer and the sales case are opportune for value-based sales efforts. The opportunity management is carried out in stages which are in line with the five phases of the selling process. For this reason, it is justifiable to identify the outcomes and divide the performance indicators based on the different stages as well.

Principle 2

The performance indicators should result in verifiable outcomes called gate criteria.

At each stage of the value-based selling process, appropriate performance indicators enable the seller to evaluate the sales efforts and activities of the sales people. Essentially, these performance indicators provide knowledge on the maturity and success of the adoption of the approach. In order to evaluate the outcomes of the value-based sales approach, the sales activities must result in verifiable outcomes at each stage of the process. These gate criteria provide valuable information for the sales function based on which, for example, the sales manager or individual sales persons can decide whether to continue with value-based sales efforts or not (Töytäri, 2015a). These verifiable outcomes are preferable goals and desirable circumstances in the sales case. Firstly, they indicate that the exchange and the business relationship is opportune for a value-focused approach. Secondly, they support the successful execution of value-based selling. In essence, the performance indicators guide the actions and the sales efforts of the sales people at each stage, and the gate criteria provide information on the success of these efforts and the outcomes of value-based selling.

Principle 3

The gate criteria can be categorized under four dimensions: value for seller, value for buyer, key players, and risk management.

The gate criteria must be identified for different dimensions of the sales process. The reason for this is that, as research indicates (Anderson et al., 2009; Kaario et al., 2003; Terho et al., 2012; Töytäri, 2015a), successful value-based selling is not only contingent on the actions of the seller, but also the buyer and its decision makers. The decisive dimensions to consider are: value for seller, value for buyer, key players, and risk management (Töytäri, 2015a). In value-based selling the aim is to co-create value and return a share of that value for both parties of the exchange. Therefore, it is important to identify gate criteria for the two central dimensions: value for seller and value for buyer. In addition, the decision makers of the customer organization play a decisive role in the success of value-based selling because they have the power to affect the final outcome of a sales case with their subjective perception of the value of the exchange. For this reason, the decision makers are considered as an individual important dimension in key players. Since value-based selling ties up valuable resources and raises the cost of potential business relationships, it is critical to also consider the risk management dimension which entails among others the opportunity management in sales efforts.

3.5.3 Metrics to evaluate the success of value-based selling and capabilities that support them

The analytical approach, based on the three Principles, enables the identification of performance indicators and gate criteria from existing literature. Some of the performance indicators and most of the gate criteria are not explicitly mentioned by researchers, but they can be directly deduced from what they present on value-based selling. In addition, the key capabilities required to support the performance indicators and gate criteria can be concluded as well.

Stage 1: Value research, relevant opportunity identification, and customer selection

In the first stage of the value-based selling process, the sales function aims to identify opportune customers and sales cases that have a strategic fit with the sales function's strategy (Töytäri, 2015a). This is essentially accomplished by analyzing and understanding the customer and its business (Kaario et al., 2003; Terho et al., 2012; Töytäri et al., 2011). Important activities that the sales function must practice at this stage include market analysis and customer business analysis.

In addition, previous reference cases might provide valuable insight when searching new opportunities (Anderson & Wynstra, 2010; Töytäri et al., 2011). This is why maintaining a reference case archive is important and it should be utilized in the initial stage of the sales process.

As mentioned earlier, it is critical to contact relevant decision makers in the customer organization in order to succeed in value-based selling (Kaario et al., 2003; Töytäri et al., 2011). Consequently, it is worthwhile to consider what kind of contacts the sales function has to potential customers early on in the sales process (Kaario et al., 2003; Töytäri et al., 2011).

Due to the costs incurred upfront in value-based sales efforts, from a risk management perspective it is important to identify the compelling business opportunities, evaluate the potential customer's readiness to partner, and estimate the potential value of the business relationship (Kaario et al., 2003).

Based on the aforementioned findings from literature, it can be deducted that relevant performance indicators for the first stage of the value-based selling process are: market analysis, customer business analysis, sales strategy, reference case analysis, customer contacts, and customer's readiness to partner.

From these performance indicators we can draw the following gate criteria for each dimension. Value for seller: strategic fit and attractive customer segment. Value for buyer: customer ready to open up for value dialogue. Key players: decision maker contacts. Risk management: compelling business opportunity and positive potential value of the business relationship.

According to these performance indicators and gate criteria, key capabilities that are implied include: business knowledge and understanding, strategic decision making, and networking.

Stage 2: Opportunity validation and value creation potential identification

After identifying customers and business opportunities that are favorable for value-oriented selling, the sales function engages the customer in a dialogue. The objective of the second stage of the selling process is to discover the needs, the requirements, the desires and the pain of the customer (Kaario et al., 2003; Töytäri et al., 2011). This requires the sales person to be able to ask the right questions and listen actively to the customer. Based on what is learned from the customer and their situation, it is possible to evaluate whether there is an incentive to advance with value-based sales efforts or not (Töytäri, 2015a).

The sales efforts at stage 2 are not only for accumulating knowledge, but possibly for educating the customer. The sales person can take an expert role in the conversation and help the customer understand its situation better, inform them on all the options they have, and perhaps influence the customer's vision of the solution and the urgency of situation (Töytäri, 2015a).

The sales person should already at this stage formulate an idea of the solution that corresponds to the customer's needs and requirements. Based on this understanding, the sales person can evaluate the business impact that the solution would have in the customer's business (Terho et al., 2015). The potential business impact and the characteristics of the offering affect the attractiveness of the business case for value-based selling (Töytäri et al., 2011).

It is important for the sales person to truly acknowledge who he is talking with in the customer organization. No later than at this stage of the selling process should the sales person recognize if the customer contact is the right person for making decisions in the customer organization (Kaario et al., 2003; Töytäri et al., 2011).

Performance indicators that can be deducted from the literary findings of stage 2 of the selling process are: customer needs, requirements, desires and pain identified, customer perception of the solution influenced, solution requires unique features, and decision makers identified.

Resulting gate criteria for the value for seller are unique features required in solution and solution specifications influenced. For the value for buyer dimension the verifiable outcomes are needs communicated, existing pain, and indecisive of required solution. For the last two dimensions, key players and risk management, gate criteria are decision maker contacts and opportunity for true business impact respectively.

To enable successful performance of the sales function in stage 2, required key capabilities would be: active listening, finding out customer's requirements, pain and objective, and understanding customer's business.

Stage 3: Requirements apprehension, offering validation and differentiation identification

In the third stage of the selling process, the sales person evaluates whether they are the right supplier for the customer. This is done by assessing how well they will be able to fulfill all the needs and the requirements of the customer (Töytäri, 2015a). As the sales person crafts a suitable offering, he should identify the key value drivers and the unique selling points (Töytäri, 2015a). If the offering does not fulfill all the requirements of the customer or it does not include unique selling points, it is not justified to continue with value-based selling.

When the offering has been crafted, the sales person attempts to quantify the value proposition. In order to be able to communicate the value of the offering in the next stage of the selling process, the quantification should be done iteratively and transparently preferably in close interaction with the customer (Anderson et al., 2007, 2009). Utilizing reference cases is an effective way to improve the reliability of the quantification (Anderson & Wynstra, 2010; Töytäri et al., 2011). It is also highly beneficial to settle upon a monetary figure in the quantification process because this enables the customer to truly grasp the business impact opportunity (Terho et al., 2012).

Succeeding in the quantification of the value proposition is integral because it greatly improves the probability of winning the sales case.

The following performance indicators can be derived from the findings that were done from existing research: offering fulfills all customer needs and requirements, key value drivers and unique selling points identified, value proposition quantified, customer involved in quantification and reference cases utilized.

The verifiable outcomes that can be deducted from these performance indicators are as follows. Value for seller: unique selling points and value quantified. Value for buyer: offering fulfills needs and requirements, offering removes pain, and offering has true business impact potential. Key players: understand and believe quantification process. Risk management: unique and differentiating selling points.

Based on the aforementioned performance indicators and gate criteria, the following capabilities would be beneficial to have in the sales function: comprehensive knowledge on own offering, matching offering to customer's specifications, value quantification, and identifying unique selling points.

Stage 4: Persuasive and credible communication of the value proposition

When the selling process enters the fourth stage, the sales person is engaged in a sales case where the customer and its business have been identified to be opportune for value-based sales efforts, the business opportunity and the requirements of the customer have been verified, and the offering has been crafted according to specifications and its value has been successfully quantified. Next the sales person will utilize his/her sales skills in order to persuasively and credibly communicate the value proposition to the customer (Töytäri, 2015a).

The method used to quantify the value plays an important role in the credibility of the quantification. It is critical to succeed in communicating the value because it is a prerequisite for, for example, leveraging value-based pricing (Anderson & Narus, 1998). Therefore, it is recommended that the communication is carried out by discussing each value element separately and ensuring that the buyer sees eye-to-eye with the seller (Anderson & Wynstra, 2010; Terho et al., 2012; Töytäri et al., 2011). In the process it is possible to adjust the quantifications if needed or modify the offering according to the customer's wishes.

If the sales person succeeds in credibly communicating the value quantification, the seller may gain the so-called preferred supplier status which would strongly indicate that the buyer would prefer completing the exchange with them.

Based on the findings made from literature, appropriate performance indicators for stage 4 of the selling process would be: all value elements discussed, mutual understanding of value, value quantification and offering modified accordingly, and preferred supplier status gained.

From these performance indicators, we can conclude the following gate criteria for each dimension. Value for seller: value conversation successful, mutual understanding of value, and preferred supplier status. Value for buyer: mutual understanding of value and value proposition matches specifications. Key players: offering matches business objectives. Risk management: no misconception of value or offering.

Supporting capabilities for these metrics would be: persuasive and credible communication skills and utilizing reference cases.

Stage 5: Value sharing negotiation, relationship development, and risk management

In the final stage of the value-based selling process, the objective is to finalize value sharing negotiations and improve the customer relationship. The success of the overall selling process can be evaluated by assessing the relationships that were built with the customer buying center and the decision makers (Töytäri, 2015a). A criteria that would indicate powerful relationships would be establishing common milestones with the customer (Töytäri, 2015a). Deepening and improving the relationships with customers is one of the main goals of value-based selling as it would bring transparency to the exchange and secure future business (Grönroos, 2008; Vargo & Lusch, 2004). This is why it is important to monitor the development of the business relationships.

An effective way to demonstrate commitment to customers and simultaneously accumulate valuable knowledge in the form of reference cases is to perform post-purchase meetings with the customer where the promised value of the offering is verified (Anderson et al., 2009). Sometimes the promised value proposition is not achieved so it is necessary to calculate the difference with the customer, and explain what caused the difference.

In addition to evaluating the success of the overall sales process, it is relevant to assess the common business performance indicators, such as hit rate, profitability and revenue, as well as risk management aspects (Töytäri et al., 2011; Töytäri, 2015a). As in business always, it is important to ensure that there are no unusual contractual liabilities or financial risks in the business relationship.

Appropriate performance indicators to be followed in the final stage of the selling process would be: hit rate, margins, and revenue, post-purchase meetings with customer, reference case reported, common milestones with customer, share of customer's wallet, and number of orders from the customer.

These metrics would result in the following verifiable outcomes for each dimension. Value for seller: improved hit rate, margins and revenue, improved customer relationship, and increased number of orders. Value for buyer: value created as promised, business objectives achieved, improved business results, and increased loyalty to seller. Key players: satisfaction with overall sales process and exchange. Risk management: contractual liabilities limited, and the overall risk of the transaction is controlled.

Essential capabilities of the sales function in the final stage of the selling process would be: value sharing negotiation skills, networking and developing customer relationship, and managing risks in the exchange.

All the findings that were made from existing research on the five stages of the value-based selling process are summarized in Table 5 in the following synthesis of this chapter. The resulting table is an analytical framework that is based on the three Principles of the approach. The performance indicators and gate criteria are listed in columns under each stage of the selling process, as required by the first Principle. According to Principle 2, the gate criteria are verifiable outcomes from the sales activities that are guided by the performance indicators. The gate criteria can be divided into the dimensions defined in Principle 3. The findings from literature are utilized to create the interview structure of the empirical study of the thesis. Therefore, the findings can also be validated with the case company representatives.

3.6 Synthesis: theoretical findings from existing research

Dynamic capabilities have a critical role in maintaining a company's competitive advantage. The concept includes the term 'dynamic' to illustrate a company's capacity to reshape capabilities according to the changing business environment. Adapting and maintaining one's competitive advantage entails achieving new and innovative ways to leverage existing assets and resources (Leonard-Barton, 1992). Therefore, introducing and successfully adopting a value-based sales strategy requires above all the presence of appropriate dynamic capabilities.

Value-based sales efforts engage customers earlier on in their business processes than traditional, reactive selling. This enables the salesperson to discover the true requirements and incentives of the customers, and possibly influence their specifications at the same time. However, the proactive efforts of the sales function are time-consuming and resource-intensive incurring costs upfront although the value of the potential business relationship remains unknown (Hogan, 2001). This may have adverse effects on the profitability of sales cases (Hogan, 2001). For this reason, it is crucial to practice effective opportunity management at every stage of the five-phased value-based selling process in order to identify the customers and sales cases that are most opportune for value-based sales efforts. By targeting the right customers and sales cases, the sales function can ensure the effective use of resources and the successful application of a value-based sales strategy.

An important objective of value-based selling is to enable the seller to capture a fair share of the value that is created in the exchange. This can be achieved by applying value-based pricing in the business relationship. In value-based pricing, the buyer's willingness to pay and the seller's opportunity cost act as the two reference points for price formulation (Brandenburger & Stuart, 1996). These reference points essentially determine the total value that is created in an exchange. The value share captured by each party depends on where the price is set between the two reference points.

For the successful adoption of a value-based sales strategy, there are five underlying elements that have to be addressed in the change process. These elements are: offering characteristics, customer characteristics, motivation to change, the magnitude of the change, and management support and incentives. The elements guide the management to understand how opportune their offerings and customers are for value-based selling, as well as evaluate possible obstacles in the change process. In addition, the management has a central role in training, monitoring, supporting, and enforcing the new approach for successful adoption within the sales function. Moreover, the successful adoption certainly requires the presence of appropriate dynamic capabilities in the management team.

Literature proposes that key capabilities for matching sales activities and account management policies with a value-based sales strategy are: specifying responsibilities of the sales function, recruiting and selecting new employees, targeting appropriate sales function training to current employees, determining type of account relationship for each sales case, and determining sales approach for each sales case (Churchill, Ford, & Walker, 1990). Moreover, value-based selling requires sales people to possess certain capabilities which are not all included in traditional salesmanship: conducting business research retrieving information, quantifying value, credible and persuasive communication, and customer relationship management. These capabilities must either be trained or acquired to the sales function.

The progress and the maturity of the adoption process can be evaluated indirectly by developing metrics on the success of the critical sales activities of value-based selling. This is an effective method for determining whether the adoption of a value-based sales approach has been successful or not, because the adoption of the value-based sales strategy is not optimal unless all key capabilities are present in the sales function and the sales people systematically act according to performance indicators. If the gate criteria of the application of value-based selling are not reached, there is room for improvement in the adoption of value-based sales efforts.

The value-based selling process is a five-stage process which is directly linked to the corresponding buying process of the customer and the simultaneous opportunity management process. Each stage of the selling process includes critical sales activities and distinct objectives. In the first stage, the goal is to identify opportune customers and sales cases for value-based sales efforts. After determining customers with a strategic fit, the sales person engages the customer in a dialogue in order to find out their requirements, needs and challenges. This dialogue which happens in the second stage of the selling process provides knowledge on whether there is an incentive to continue with the value-based sales efforts. In the third stage, the sales person evaluates how well their offering matches the customer’s specifications, and attempts to quantify the value proposition. Next the value is credibly and persuasively communicated to the customer in order to enable leveraging value-based pricing. In the final stage, the success of the overall sales process is evaluated, and the customer relationship is attended to. Based on the objectives and the sales activities of each stage of the value-based selling process, key capabilities, performance indicators, and gate criteria can be identified accordingly. Based on the three Principles of the analytical approach, the following analytical framework is constructed, summarizing the findings (Table 5).

Table 5: Synthesis of the theoretical performance indicators, key capabilities and gate criteria for each stage of the value-based selling process

	Organizational value-based selling process				
	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
Value-based seller activity	Value research, relevant opportunity identification, and customer selection	Opportunity validation and value creation potential identification	Requirements apprehension, offering validation, and differentiation identification	Persuasive and credible communication of the value proposition	Value sharing negotiation, relationship development, and risk management
Performance indicators	• Market analysis • Customer business analysis • Sales strategy • Reference case analysis • Customer contacts • Customer's readiness to partner	• Customer needs, requirements, desires and pain identified • Customer perception of the solution influenced • Solution requires unique features • Decision makers identified	• Offering fulfills all customer needs and requirements • Key value drivers and unique selling points identified • Value proposition quantified • Customer involved in quantification • Reference cases utilized	• All value elements discussed • Mutual understanding of value • Value quantification and offering modified accordingly • Preferred supplier status gained	• Hit rate, margins and revenue • Post-purchase meetings with customer • Reference case reported • Common milestones with customer • Share of customer's wallet • Number of orders from the customer
Key capabilities	• Business knowledge and understanding • Strategic decision making • Networking	• Active listening • Finding out customer's requirements, pain and objective • Understanding customer's business	• Comprehensive knowledge on own offering • Matching offering to customer's specifications • Value quantification • Identifying unique selling points	• Persuasive and credible communication skills • Leveraging reference cases	• Value sharing negotiation skills • Networking • Developing customer relationship • Managing risks in exchange
Gate criteria/ dimension					
Value for seller	• Strategic fit • Attractive customer segment	• Unique features required in solution • Solution specifications influenced	• Unique selling points • Quantified value	• Value conversation successful • Mutual understanding of value • Preferred supplier status	• Improved hit rate, margins and revenue • Improved customer relationship • Increased number of orders
Value for buyer	• Customer ready to open up for value dialogue	• Needs communicated • Acknowledged pain • Uncertainty of required solution	• Offering fulfills needs and requirements • Offering removes pain • Offering has true business impact potential	• Mutual understanding of value • Value proposition matches specifications	• Value created as promised • Business objectives achieved • Improved business results • Increased loyalty to seller
Key players	• Decision maker contacts	• Decision maker contacts	• Understand and believe quantification process	• Offering matches business objectives	• Satisfaction with overall sales process and exchange
Risk management	• Compelling business opportunity • Positive potential value of the business relationship	• Opportunity for true business impact	• Unique and differentiating selling points	• No misconception of value or offering	• Contractual liabilities limited • Overall risk of the transaction is controlled

4. Research method

The following chapter describes the chosen research method of this thesis in detail. The description includes all the essential elements commencing from the research design and approach, followed by a presentation of the data collection and analysis methods, and a brief justification of the data acquisition and construct validation, ending in an evaluation of the reliability, validity and credibility of the research.

On one hand, the thesis aims to discover the metrics and performance indicators utilized by an industrial company to evaluate the success of its value-based approach to selling. In addition, the research strives to identify the essential capabilities that support successful value-based selling in industrial selling. On the other hand, theory and previous research provide findings on these issues and they can be validated in the empirical part of the thesis. Due to this duality aspect of the thesis, it can be justified that the research combines deductive and abductive strategies for reasoning.

The empirical phenomenon that is studied essentially defines the methodological decisions and research design choices that are made. Since the thesis aims to understand how an industrial company measures and evaluates the success of value-based selling in practice, and how this compares with theoretical propositions, it was determined that a single case study is the appropriate research method. By examining only one case company, it was possible to immerse in the sales processes and practices in more detail and more diversely than what would have been achieved in a multiple case study.

4.1 Case study research design and approach

The research design of the case study outlines the decisions, activities, and process that depict how the study was conducted. Yin (2009) defines research design as the logical roadmap that guides the study from the initial research questions to the eventual outcomes and conclusions that answer them. The research design provides systematic guidance and a helpful plan to the researchers conducting the study. Some of the most central elements of the research design are the research questions, research propositions, units of analysis, the logic linking the data to the propositions, and the criteria for interpreting the findings (Yin, 2009).

Value-based selling is a perfect example of a highly complex and multifaceted function that is affected by various stakeholders and unpredictable human factors in real-life context, and case studies have been recognized to be especially useful with exactly these kinds of phenomena (Dubois & Araujo, 2007; Woodside & Baxter, 2013). Furthermore, Yin (2009) and Easton (2010) propose that case studies are particularly appropriate for answering "how" and "why" questions. The research questions of this thesis essentially derive from the higher level question which is: "how to measure the success of value-based selling?"

Research questions have a significant role in determining the research design and approach (Strauss & Corbin, 2008). In this thesis, all of the research questions require in-depth knowledge on the value-based sales process and its management. In order to acquire such knowledge and facts on the case company's practices, a qualitative approach to the research is preferable (Hirsijärvi, Remes, & Sajavaara, 2005). Strauss and Corbin (2008) declare that the essence of qualitative research is understanding the perceptions and real-life context of individuals which is why the empirical research of this thesis focuses on gaining knowledge from individual professionals.

Case studies are very versatile in the sense that they permit several methods of collecting data, such as surveys, interviews, observations, and documents which can either be in qualitative or quantitative forms (Easton, 2010). Besides its versatility, Yin (2009) emphasizes certain research requirements which strongly favor the case study method. The first requirement is that the research focuses on a contemporary phenomenon within a real-life context, and value-based selling as the focus of this thesis is just that. Secondly, the researcher, or researchers, should have no control over the phenomenon that is studied, which is very true in this thesis. The last requirement is that the research outcomes aim to answer “how” or “why” questions which is the case in this study as pointed out earlier.

Value-based selling functions as the core phenomenon in this research, and it is studied in an industrial, business-to-business context in the elevator and escalator industry. The unit of analysis is the individual phases of the sales process of the organization. However, it can be reasoned that the sales process slightly differs between the three business lines of the organization which would mean that the single case study includes three embedded cases.

The level of analysis in this thesis was chosen to be individual representatives of the case company from various positions, rather than a whole sales team or function. The reason for this is not only the qualitative approach of the study but also the fact that individuals from different levels and geographical areas of the company are able to provide much broader insight and perspectives. Moreover, value-based selling is after all practiced and managed by individuals which is why it is appropriate to collect personal thoughts and perceptions on the process.

The findings from the empirical part of the study are compared to the outcomes from the theoretical research in the Conclusions and Discussion chapter. The comparison enables making general managerial recommendations and conclusions as well as suggesting further research topics.

4.2 Research process and case selection

Yin (2009) has developed a systematic process to guide a case study from the planning phase all the way to presenting outcomes. Key stages of this process are case selection, data collection, and data analysis which are presented in the following paragraphs. The actual data collecting and analyzing is discussed in more detail in the following section. The well-known process of Yin (2009) was utilized in this thesis in order to ensure a successful case study.

The research process began with the theoretical phase during which an extensive literature review on customer value, value-based exchange and value-based selling was completed. The theoretical study provided initial outcomes on measuring and evaluating the success of value-based selling. The knowledge accumulated from the literature research was utilized to craft an interview structure for discovering information on the topic from case company representatives. After data collection and thorough analysis, findings from the empirical part of the research were summarized. The research process ended in comparing findings from the theoretical and empirical studies, and drawing conclusions from these outcomes.

The thesis studies measuring and evaluating the success of value-based selling in an industrial business-to-business context which essentially means that the case company must be an industrial supplier company. This company preferably should already have implemented a value-based approach to selling and practiced it for several years. The company selected for the thesis' single-case study fulfilled all of the aforementioned criteria. As mentioned earlier, the case company provides solutions in an industrial setting. The company initially launched value-based selling in 2011, and is currently planning a revamp program for the approach. Since the company has been leveraging value-based selling in industrial exchange for several years already, company representatives have accumulated valuable knowledge and insight on the approach.

The primary data collection method chosen for the case study was in-depth interviews. The reasons behind this were that interviews are especially appropriate for the qualitative approach of the thesis (Strauss & Corbin, 2008) and they are considered the most important source of data in case studies (Easton, 2010). For gaining a good understanding of the individual representative's perceptions on value-based selling, the interviews were designed with a dynamic semi-structured format. This format is in line with Yin's (2009) remark according to which interviews should be structured conversations in order to effectively provide information on behavioral aspects such as value-based selling. The semi-structured format is flexible in data collection by enabling the interviews to focus on specific issues and subjects that the interviewees are most familiar with and have valuable insight on. However, it is important to observe the possible weaknesses of interviews, for example interviewee bias, poor recollection of events, or unclear verbalization of questions (Yin, 2009).

The research combines deductive and abductive reasoning in analyzing data. The reason for this is that, on one hand, findings from literature were validated in the empirical part of the research, and, on the other hand, the study aimed to discover new perspectives from the empirical study. The two approaches to reasoning are described briefly in the following paragraphs.

Deductive approach

The deductive approach begins from the hypothesis that is created based on the propositions from theory (Wilson, 2013). This hypothesis is then tested, or validated, in real-life context (Babbie, 2013). The approach is concerned with deducting conclusions from theoretical propositions. Figure 21 illustrates the path of the deductive approach.

As can be seen from Figure 22, the deductive approach follows closely the path of basic logic (Snieder & Larner, 2009). Reasoning starts from theory based on which a new hypothesis is created. This hypothesis is than tested with empirical observations which either lead to confirming or rejecting the hypothesis.

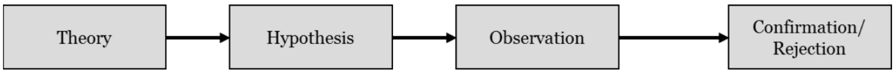

Figure 22: The path of the deductive approach (adopted from Snieder & Larner, 2009)

The deductive approach is suggested to be used in studies where the following circumstances are true:

- Theoretical literature is available in an abundance of sources
- Research is done under a time constraint
- Researcher avoids developing false theory

The timeframe of this thesis was set to be 6-9 months, so research was done under a clear time constraint. Customer value, value-based exchange and value-based selling are topics that have attracted a lot of attention among academics and researchers. The thesis avoids making false conclusions and developing new theory. Since the aforementioned circumstances are fulfilled in this thesis, the deductive approach is appropriate for the study.

Abductive approach

The abductive approach is based on a premise and acquired observations which are then explained with a rule within the initial premise (Marcio, 2001). The approach differs from the common inductive approach in the sense that how theory is utilized in reasoning. The inductive approach attempts to form a pattern of observations from real-life context, and as a result of this pattern, new theory evolves (Lodico, Spaulding, & Voegtle, 2010). In other words, in inductive studies no existing theories have to be tested during the research process.

In abductive research, however, theory is closely studied simultaneously with the empirical observations. The objective is to systematically combine the two elements by actively considering both throughout the research process (Dubois & Gadde, 2002). In a sense, the abductive approach begins with existing theory and empirical observations, and during the study, the researcher strives to link these two through analysis in order to refine existing theory. The path of abductive research is illustrated in Figure 23.

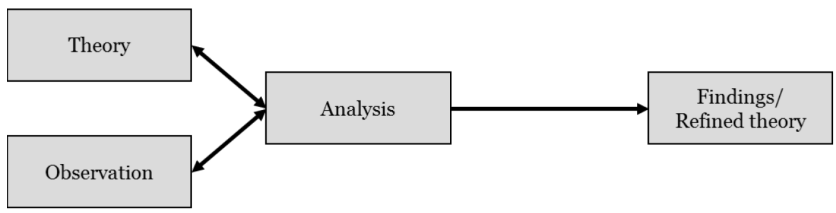

Figure 23: The path of the abductive approach

The abductive approach was very suitable for this thesis because theory and empirical research, both, provided propositions and outcomes for the study. These findings were analyzed and compared in order to refine the theory on measuring the success of value-based selling. As was stated already in the motivation for the study, research on the successful value-based selling process and its outcomes is lacking which is why it is necessary to improve this part of existing theory.

4.3 Interviewee selection, data collection and analysis

To ensure successful interviews and valuable insight on value-based selling, it was important to plan the interviewee selection properly. Three criteria for the selection process were identified early on. First of all, the interviewees have to be working in positions where they are regularly exposed to value-based selling. Second, the interviewees should be individuals who have the capacity to envision and develop methods for measuring value-based selling. Third, the group of interviewees must include representatives from every business line and the most important geographical areas. Based on these criteria, the research coordinator from the case company assembled a group of 24 company representatives for the interviews. Table 6 displays how these representatives are divided between the three business lines and different geographical areas. Some of the interviewees were in positions that could be considered global or extending over business lines.

Table 6: Number of interviewees from different business lines and geographical areas

	Business line A	Business line B	Business line C	Across business lines
Area 1	2	1	1	2
Area 2	2	2	1	
Area 3	3	1		
Area 4	1	1	1	1
Area 5	1			
Global	1	1	1	1

All of the interviews were conducted within a three week timeframe. The intense interview period enabled the researcher to effectively develop the question structure and his interview skills which improved the outcomes of the conversations. In the end 22 out of the 24 suggested representatives were able to find a 60-90 minute timeslot for the conversation. Data from the semi-structured interviews was collected by recording the conversations and taking notes. After the interviews the recordings were transcribed which enabled thorough analysis of the dialogues.

An important component of the research design is planning how to draw conclusions from the data. Research proposes several techniques for linking empirical data to theoretical propositions (Easton, 2010; Yin, 2009). This process essentially elevates the raw data to a conceptual level (Strauss & Corbin, 2008). The data collected from the interviews in this thesis was synthesized by categorizing findings in an Excel spreadsheet. For each business line a matrix was created where the five sales process stages represented columns and the following topics represented rows in the spreadsheet: sales tools, sales person capabilities, data available, metrics/indicators followed, possible new metrics/indicators, considerations. Based on this synthesis, the findings from the empirical study could be systematically analyzed and compared to the theoretical propositions which enabled drawing conclusions and making final propositions.

4.4 Creating interview questions

Value-based selling is such a multidimensional and complex concept that the conversations with the case company representatives could have inadvertently slipped to nonessentials. In order to ensure that the discussion stays on topic and that valuable insight is gained during the limited time of the interview, it was important to carefully draft a structure for the dialogue. This structure would not be followed too strictly, instead its purpose was to guide the conversation so that it would cover all relevant topics (Yin, 2009).

For creating and validating the structure of the interviews, four key stakeholders from the case company were consulted for their input and perspectives. The structure was developed iteratively between each meeting with the stakeholders. Receiving advice from these professionals before the interviews was essential for the success of the empirical study. By putting sufficient effort in planning the interviews, the data collection was effective with a coherent and rigorous question framework. Appendix 1 includes the entire interview structure of the empirical study.

The objective of the empirical study was to investigate how value-based selling is, or should be, measured and managed in the case company. Based on this objective, the focus of the individual interviews was on the different stages of the value-based sales process. Each stage of the theoretical process was examined separately during the interview, and the representative's perspectives and insight on each were meticulously explored. The type of questions that were asked during the interview are presented in Appendix 1.

4.5 Quality of the research

The quality of the research can be evaluated with several methods (Strauss & Corbin, 2008), and for the purpose of this thesis, appropriate tests are construct validity, external validity, and reliability of the study. These three conditions are critically evaluated in the following paragraphs, and based on their fulfillment the quality of the research is assessed.

Construct validity

Construct validity concerns assessing the link between the examined theoretical concepts and the corresponding empirical events (Yin, 2009). In other words, the purpose is to ensure that the right elements have been studied in the empirical research to enable comparison with theoretical findings. Construct validity is often problematic in case studies, and Yin (2009) proposes a couple of methods for improving it. First of all, multiple sources of empirical data effectively improves construct validity. Second, key stakeholders and advisors should review the case study and research report regularly during the research process.

In this thesis measuring value-based selling is first studied from literature and then examined in real-life context. In order to ensure that the findings from theory and the empirical study are comparable, the concept of value-based selling and its process is validated with each interviewee. In the beginning of the interview, the company representative is asked to define value-based selling after which a theoretical definition is provided to them. Next the interviewee either agrees with the theoretical one or they can explain why it differs from their perspective. Further on in the interview the theoretical value-based sales process is presented alongside the case company's process which effectively demonstrates the congruencies between the two.

Furthermore, the construct validity of the study is improved with the methods that Yin (2009) presents. In the empirical study, data is collected from several sources (22 interviews altogether) with various backgrounds (different business lines and geographical areas). The research report and the case study was also regularly reviewed by stakeholders and advisors throughout the research process.

External validity

The findings and outcomes of a research can only be generalized within a certain domain, and external validity assesses this generalization (Yin, 2009). It is important to understand the significance of the findings from a case study, and perceive where the outcomes can be applied. When planning a research, the generalization of the findings and implication to theory must be considered in order to design the research accordingly.

Since the scope of this thesis is value-based selling in global industrial business-to-business selling, the outcomes of the study can only be generalized within this context. In the industrial selling domain, the findings of the research are valid because of the global industrial supplier case company. Moreover, the external validity of the thesis is improved by interviewing case company representatives from different business lines and different geographical areas,

Reliability

Reliability essentially means that the research is imitable by someone else and they would obtain similar outcomes, given that the study is conducted with similar data collection methods and a similar sample of company representatives (Järvenpää & Kosonen, 2000). The reliability of a case study is also affected by the truthfulness of the interviewees and the objectivity of the interviewer (Eisenhardt, 1989). Yin (2009) emphasizes the fact that the research process and operations must be reported appropriately to enable repetition of the study and producing the same results.

In this thesis the research process and all its elements are described in detail as well as the reasoning behind the choices made in the study. In addition, the reliability is improved by utilizing a case study protocol and a case study database as suggested by Yin (2009). The case study protocol included the research plan and the research schedule, as well as the data collection plan and the detailed interview structure. The case study database was created based on interview notes and the interview transcripts. The reliability of the study is limited to some extent, however, due to the fact that the empirical research relied on a single-case study. A multi-case study would have produced more reliable results, but it would have also amplified the scope of the thesis significantly.

5. Case study findings

This chapter examines the findings from the empirical research of the thesis. The findings are partially overlapping with the outcomes of the literature research because one of the objectives of the case study was to validate findings from existing theory. All of the outcomes from the theoretical research and the empirical study will be synthesized in the 'Discussion and Conclusions' chapter.

The interview structure corresponds to the five-stage value-based selling process. Each stage of the process was discussed separately with the case company representatives. By focusing on one stage at a time, it enabled thorough examination of all the capabilities, performance indicators and verifiable outcomes related to that phase of the process. This was necessary considering the first Principle based on which findings were made in the literature research. Principle 1 stated that each stage of the value-based selling process must have distinct performance indicators and gate criteria in order to measure the success of the sales approach. The performance indicators guide the sales function to appropriate activities and sales efforts at each stage, and the gate criteria enable effective opportunity management.

Company A initiated a value-based selling approach several years ago and currently they are planning an advanced and improved version of it. The redesign phase is necessary in the case company because so far the value-based sales efforts and results have not been sufficiently monitored and managed. In addition, Company A redesigns their sales process to match the theoretical 5-stage value-based selling process. For the updated approach the sales managers and sales developers have identified potential activities, indicators and gate criteria that should be monitored in order to evaluate the success of value-based selling. These measures slightly differ between the three business lines of Company A, but for the sake of the anonymity of the case company, the findings are presented in uniform instead of separately for each business line. However, this does not have an effect on the significance of the empirical outcomes which are presented next for each sales process stage.

5.1 Case company interview findings

Stage 1: Value research, relevant opportunity identification, and customer selection

The value-based selling process initiates with pre-sales activities in order to identify opportune customers and potential business opportunities. Due to the resource-intensive and time-consuming nature of value-based sales efforts, it is critical to apply effective opportunity management already in the first stage of the selling process by narrowing down the number of potential customers. This enables the sales function to target resources and sales efforts to business opportunities that are most suitable for value-based selling.

"Time is money, which means that we have to learn to tend to smaller customers and sales cases as efficiently and quickly as possible so that we can focus on the strategic, bigger, more valuable customers. The goal state can be illustrated with the following framework (Figure 24)."

-Head of Sales Development, Company A

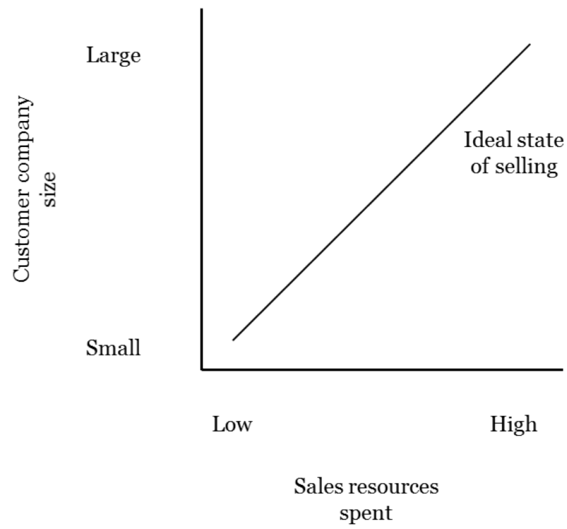

Figure 24: Sales resources spent compared to size of the customer/ sales case (adopted from the Head of Sales Development)

Representatives described several methods for examining business opportunities and identifying the relevant ones. These methods included basic pre-sales analytics such as market analysis, industry analysis, customer business analysis, and sales lead analysis. Sales lead analysis could for example be a sophisticated software for analyzing the digital footprint of potential customers after they have visited Company A's website, and based on this data, sales leads could be prioritized. In addition, interviewees mentioned that regarding value-based selling it is beneficial to examine existing reference cases from previous sales efforts because they may provide valuable information as well. All of the aforementioned analysis methods can be considered as performance indicators for stage 1 because they represent critical sales activities which should be performed in order to be successful in value-based selling.

Analyzing customers and the market is not enough if the sales people do not know what to look for. The guidelines for the analytics are provided by a well-crafted sales strategy. It enables the sales function to identify business opportunities with a strategic fit to them. As several interviewees pointed out, customer segmentation is often an important part of the sales strategy and it can affect prioritizing potential customers in the pre-sales analyses. Based on these observations, the sales strategy and customer segmentation are relevant performance indicators for the first stage as well.

Sales people should also attempt to evaluate the business opportunities of customers. This enables predictive evaluation of the viability of the customer's business case and proactive contacting which is an objective of value-based selling. As a result, business opportunity evaluation is an activity that would require a performance indicator to monitor.

Without the right contacts in the customer organization, engaging the customer in a value conversation is near impossible. For this reason, sales people should regularly network in order to identify relevant contacts with whom a value-based selling process could be initiated. Existing contacts to decision makers is a prerequisite for value-based selling which is why developing such a network and utilizing it should be a performance indicator.

"The probability of succeeding in value-based selling is significantly higher when speaking with a decision maker than with someone from the procurement of the customer. The procurement evidently has strict priorities and they are only interested in price."

-Senior Sales Manager, Company A

For the first stage of the value-based selling process, the interview results suggest nine performance indicators. These indicators could guide the sales function to critical activities which are essential considering opportunity management and the objective of the first stage. The performance indicators can be categorized according to who is responsible for executing the activity: the front line, the sales team, or the individual sales person (Table 7).

Table 7 : Performance indicators for each responsibility level at stage 1

Responsibility level	Performance indicator
Front line	Sales strategy Market analysis Customer business analysis Sales lead analysis
Sales team	Customer segmentation Customer analysis Business opportunity analysis
Individual salesperson	Reference case analysis Network and relevant contact identification

Based on the identified performance indicators, gate criteria were created for each of the four dimensions: value for seller, value for buyer, key players, and risk management. The gate criteria are desirable outcomes and circumstances from the critical activities performed by the sales function. The proposed verifiable outcomes could reveal whether the customer and the sales case are opportune for value-based selling which would essentially enable effective opportunity management (Table 8).

Table 8: Gate criteria for each dimension at stage 1

Dimension	Gate criteria
Value for seller	Fit to sales strategy Attractive customer segment Prioritized lead
Value for buyer	Ready to open up for value dialogue
Key player	Decision maker contacts
Risk management	Compelling customer business opportunity

The seller can optimize the potential value of a business relationship by identifying customers with a strategic fit, an attractive business segment, or a prioritized sales lead based on analytics. For the buyer, engaging in a value-based conversation is only worthwhile if they are initially ready to open up for the value dialogue. Talking to the right person in the customer organization is essential for the success of value-based sales efforts, which is why the seller should have the right decision maker contacts already in the beginning of the value-based selling process. Due to the costs that are incurred up front in value-based selling, there is always the risk that the sales efforts end up non-profitable. Because the potential value of the business relationship is unknown for a long time, it is beneficial from a risk managerial perspective to at least target the efforts on compelling customer business opportunities.

By performing the critical activities (Table 7), the sales function should end up with verifiable outcomes (Table 8), and if the majority of these gate criteria are fulfilled, the customer would be engaged with value-based sales efforts. However, for the sales function to be able to reach the performance indicators, this implies the following key capabilities. Business knowledge and understanding for performing thorough and reliable market and business analyses. Strategic decision making which enables the crafting of a solid sales strategy and identifying strategic fit. And lastly, networking which is an important asset to every sales person and especially critical for creating contacts to decision makers in customer organizations.

Stage 2: Opportunity validation and customer value creation potential identification

After the sales function has identified a promising sales opportunity, the potential customer is engaged in conversation. Contacting the customer is done proactively which means that the customer has not yet tendered for offerings, possibly even so that the customer is not yet aware of what it needs. By approaching the customer proactively, the seller is able to potentially create a need for the customer, or to some extent influence the customer's perception of the required solution. These sales efforts would be highly beneficial for the success of the whole value-based selling process which is why they are important performance indicators.

Whether the sales person was able to influence the customer's specifications or not, the most important objective of this stage of the selling process is to find out the true needs, requirements, challenges and objectives of the customer. This requires the sales person to ask the right questions and listen actively, letting the customer speak for themselves. All the information that is found out about the customer should be reported into sales tools and systems so it can be utilized later on in the sales case, or in possible future sales cases.

Finding out what the customer requires and values can partially be done by conducting value research on the Internet, examining existing reference cases, or even leveraging the contact networks of sales people. Utilizing third party information can reveal something about the customer that they would not tell themselves. For example, the sales function could gain a lot of insight about industries, companies, and positions by systematically gathering information internally.

"We have a lot of employees who have previously worked in the same industries and business areas as the customer which means that they have insight on the KPIs and incentives followed in those companies."

-Branch Manager, Company A

Identifying the decision makers in the customer organization is critical at this stage, and the sales persons should be contacting them. In addition, to gathering information on the customer company, the sales people should focus on gaining information on the contact person. By leveraging their contact networks and the possible internal information on the customer, the sale person could optimally find out the personal agenda, interests and KPIs of the decision maker contact. This kind of valuable information should be reported into the sales tools and systems.

"It is really important to recognize who you are talking with. What makes them successful, what drives them, what are their KPIs and incentives? By understanding this, you will be able to craft your communication accordingly and influence the buyer."

-Director of Business Development, Company A

Value-based sales activities are more laborious than traditional selling which is why sales people have to be sufficiently motivated to make the effort. Several interviewees emphasized that aligning incentives with value-based selling is challenging and so far the only performance indicators used in the sales function's incentives are number of customer visits, number of visits converted into opportunities, and number of opportunities.

Sharing knowledge internally is essential especially for a large, globally operating company. For this reason it is important to ensure that the front lines report and share details of customers and customer visits. The information may prove valuable in some future sales case in a completely different market. Front lines may be inattentive to sharing knowledge which is why it should be monitored with a performance indicator.

The empirical study contributes 12 performance indicators for the second stage of the value-based selling process (Table 9). These indicators direct the sales function towards critical activities which would enable understanding the customer and its situation, and evaluating whether the business relationship and the solution specifications are favorable for value-based selling.

Table 9: Performance indicators for each responsibility level at stage 2

Responsibility level	Performance indicator
Front line	Insights on industries, customer, and positions collected internally Customer information and details of visits shared internally Number of opportunities generated
Sales team	Decision makers identified Number of customer visits Number of visits converted into opportunities
Individual salesperson	Value research conducted Customer needs, requirements, challenges, and objectives reported Contact to decision maker Customer contact's interests, motives, and KPIs reported Customer's perception of solution influenced Customer need created

The performance indicators presented in Table 9 should lead to several verifiable outcomes (Table 10). If a sufficient number of these verifiable outcomes, or gate criteria, are fulfilled, it would be justified to continue with the value-based selling process in the sales case. The gate criteria for each of the four dimensions were either explicitly expressed by the interviewees, or they can de directly deducted based on the performance indicators of the stage.

For the first dimension, value for seller, the gate criteria indicate whether the particular sales case is of such nature that continuing with value-based sales efforts is worthwhile. If the customer is a strategic or major customer, the sales function should target resources into the sales case and continue with value-based selling. Similarly, if the customer is a repeat customer who has for example given a good NPI score to the seller in previous exchanges, it is very likely that the value-focused approach in selling is successful and results in a won sales deal. In addition to preferring certain types of customers, the type of solution that the customer requires also affects whether it is worthwhile to continue with value-based selling. Solutions that include unique or somehow special features and options are more opportune for a value-focused business relationship than generic, volume products. Furthermore, if the specifications and the perception of the customer has been influenced, or the need was created for the customer, the seller is in a very favorable position to continue with value-based selling.

For the buyer, the value-based selling process brings value if most of the following gate criteria are fulfilled. The customer should have an existing pain or challenge, or it has set certain objectives for its business. These are important criteria for the sales case because then there is understandable value to be created in the exchange which enables coherent value propositions to negotiate on. Additionally, it is critical that the customer has communicated all its needs in order to ensure that the seller is able to focus on the right issues. Engaging in a value-focused business relationship is especially valuable for the customer if it is still indecisive of the solution that it requires.

The decision makers in the buyer's organization, included in the key players dimension, have great power in affecting how a business relationship progresses based on their perception of the business partner and the value that they offer. For this reason, in order to continue with value-based selling in a sales case, the seller must have relevant decision maker contacts. Preferably, the seller would even have knowledge on the personal motives, interests and KPIs of the decision maker. In some cases, it is also important that the seller has the timing right and contacts the customer when procuring and decision-making is topical for them.

In terms of risk management, there are two gate criteria that should be assessed at stage 2 of the selling process. Firstly, the financial stability of the customer should be immaculate in order to avoid possible default later on in the business relationship. Secondly, engaging valuable resources into the business relationship is more likely beneficial if the buyer is a possible repeat customer. By monitoring these gate criteria, the seller is able to manage the risk of employing valuable resources and time into value-based sales cases that end up returning no revenue to the company. If the gate criteria of the risk management dimension are fulfilled in a business relationship, the probability of practicing profitable value-based sales efforts is higher.

Table 10: Gate criteria for each dimension at stage 2

Dimension	Gate criteria
Value for seller	Strategic or major customer Repeat customer, good NPI score Unique features and options required Specifications and need influenced
Value for buyer	Needs communicated Acknowledged pain or challenge Determined business objectives Uncertainty of required solution
Key player	Decision maker contacts Relevant timing Motives, interests and KPIs recognized
Risk management	Customer's financial stability Potential repeat business with customer

The performance indicators of stage 2 include sales activities which are not commonly included in traditional salesmanship. This requires introducing new capabilities into the sales function in order for the sales people to be able to reach the set of indicators. For example, sales people are often individuals who are talented speakers and convince buyers to buy their solutions. However, in value-based selling it is key to let the potential customer speak and tell their requirements, objectives and challenges in their own words. This requires the sales person to be a good listener, or more precisely, an active listener who can ask the right questions.

In addition to the listening capability, the seller must have exceptional interpersonal skills which aid him in interpreting the potential buyer and finding out information on their needs, requirements, pain, and objectives. Relating to this, a further beneficial capability for the seller is incepting a thought or idea into the counterparty and creating a need for them. However, in order to have an educated conversation with the potential customer and find out their situation, the seller should have thorough business understanding.

Stage 3: Customer needs apprehension, offering validation, and differentiation identification

Based on all the information of the customer company and its situation, the needs and the requirements, the decision maker and their personal agenda, the sales person is able to craft an appropriate offering. The offering must match all of the specifications and expectations of the customer. If the seller company is unable to offer such a solution, they are the wrong supplier to make a value proposition for the buyer. Relating to this, Company A monitors the number of opportunities that they are able to convert into tenders.

If the seller can craft a suitable offering, the sales person will identify the key value drivers and unique selling points which must be emphasized in quantifying and communicating the value. In addition to crafting the offering at stage 3, the sales person will also attempt to quantify the value proposition. For the quantification process the sales person utilizes supporting sales tools and preferably reference cases to improve reliability and accuracy. Quantifying value is always challenging and dubious, partially because many of the value categories are intangible elements. The tangible value categories can be quantified, but the quantification is incomplete if the important intangible elements are left out. In order to enhance the credibility of the quantification, the intangible elements have to be evaluated qualitatively for discussion with the customer.

"Often times the intangible value elements are the most critical ones, the ones with which we might be able to differentiate from competition, so our sales people have to at least qualitatively evaluate these elements so that they can be discussed with the customer."

-Business Development Director, Company A

The quantification process includes discussions within the sales team and with the sales manager so the sales person is not left alone with his efforts. Sharing knowledge within the sales team is important for successful quantification. Furthermore, the critical role of sales management and their support to sales people is emphasized in challenging tasks such as quantifying the value proposition.

"I think it comes back to the sales management helping them in the process, supporting the quantification efforts by actually challenging them and asking questions on the reasoning behind assumptions and estimates."

-Business line Director, Company A

The 7 performance indicators proposed for stage 3 of the value-based selling process are presented in Table 11. If the sales function successfully performs the activities, which are monitored with the performance indicators, the third stage can justifiably be expected to result in an offering, which fulfills the customer's specifications, and a quantified value proposition.

Table 11: Performance indicators for each responsibility level at stage 3

Responsibility level	Performance indicator
Front line	-
Sales team	Offering and quantification discussion with sales manager and within team Number of opportunities converted to tenders
Individual salesperson	Offering fulfills customer and contact specifications Key value drivers and unique selling points identified Tangible value quantified Intangible value evaluated qualitatively Reference cases utilized

The seller could ensure that it is beneficial to continue with value-based sales efforts by monitoring the following two gate criteria. If the offering includes unique or special features, it is possible to differentiate from competitors' solutions. Furthermore, if the value proposition is successfully quantified and communicable to the customer, the seller can advance to the fourth stage of the value-based selling process.

To ensure value for the buyer, it would be important that the offering fulfills all the needs and requirements which the buyer has communicated. In addition to this gate criteria, the offering should remove the possible pain of the customer and preferably create significant value to the customer when consumed in their business processes. By creating true business impact for the customer, the value dialogue in the next stage of the selling process is rationalized.

Considering the key players dimension, suitable gate criteria are that the offering impacts their personal KPIs and it is also in line with their personal motives and interests. For the risk management dimension, there are no identified gate criteria at this stage of the selling process. All of the gate criteria suggested for the third stage are presented in Table 12.

Table 12: Gate criteria for each dimension at stage 3

Dimension	Gate criteria
Value for seller	Unique/ special / differentiating features included in offering Value quantified and communicable
Value for buyer	Offering fulfills needs and requirements Offering removes pain Offers business impact
Key player	Offering impacts KPIs Offering is in line with motives and interests
Risk management	-

Based on the performance indicators and gate criteria of this stage of the sales process, there are several apparent capabilities which would be required from the sales function. First of all, the seller must have comprehensive knowledge of their own offering in order to be able to craft an appropriate solution for the buyer. Secondly, the seller must be able to match an offering to the specifications learned from the buyer. Thirdly, the key value drivers and unique selling points have to be identified based on what is learned about the customer in the second stage of the process. And fourth, probably the most challenging capability for this stage, quantifying the value proposition in a credible, reliable and transparent way.

Stage 4: Persuasive and credible communication of the value proposition to the customer

In the fourth stage of the value-based selling process, the seller and the buyer engage in a conversation on the value proposition. The seller attempts to convince the buyer on the value of the offering by credibly presenting the quantification method and the assumptions behind it. Persuasive communication and engaging storytelling skills leveraging reference cases are advantageous assets for succeeding in this.

The seller should discuss all relevant value elements with the buyer, and focus on achieving a mutual understanding on the value proposition. If the buyer is at variance with some value elements, the offering should be modified accordingly and the changes reported into sales systems. In addition to these performance indicators, the seller has to address the personal interests, motives and KPIs of the decision maker contact during the conversation on the value proposition.

The main objective of this stage of the selling process is to gain the preferred supplier status, which refers to the buyer preferring the seller's offering over all other competing offerings. This status is not something that the customer will explicitly mention, but in most sales cases it can be indirectly concluded by the actions of the buyer. Relating to this performance indicator, it is valuable to collect information on the decisive factors of the offering and the sales process that lead to winning the case, or conversely lead to losing or cancelling the case. Furthermore, the seller can gain valuable information for future sales cases by comparing their offering to competing offers. However, this is not always possible due to lack of information on the competitors' offerings.

The fourth stage of the selling process is a critical phase for winning the sales case. The buyer has to be convinced of the value proposition and the potential business impact of the offering. The sales person must prepare meticulously for the conversation with the customer considering everything that has been learned from them. Regarding the preparation, the sales manager has the important responsibility of coaching and supporting the sales person. Moreover, it is advisable that the sales manager accompanies the sales person to customer meetings periodically. The purpose of these performance indicators is to ensure that the value proposition is communicated in an optimal way.

"Too often our sales people try to sell on facts and features, while the customer makes purchasing decisions based on emotions. We should identify when the customer contact, or decision maker, is a facts-person or an emotions-person, and communicate accordingly."

-Head of Sales Development, Company A

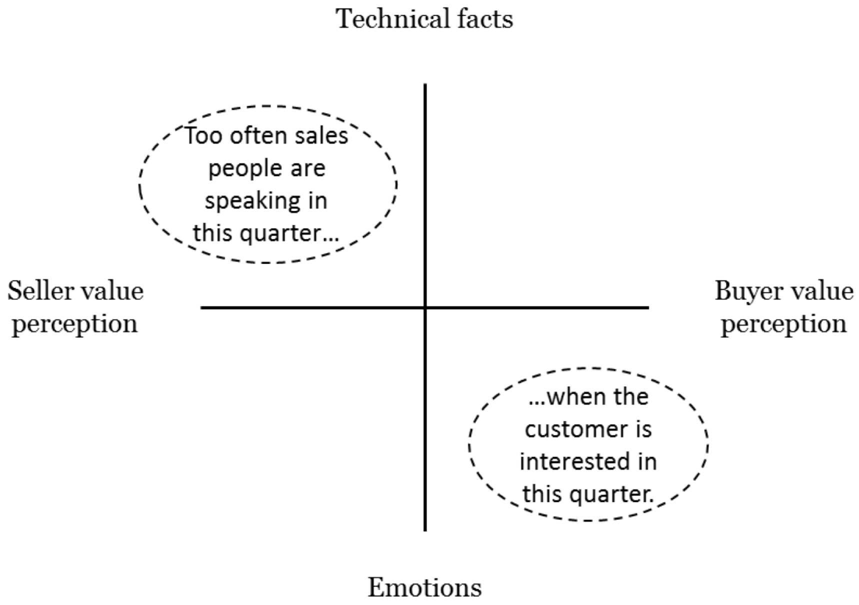

Figure 25: Selling by technical facts vs selling by emotions (adopted from the Head of Sales Development)

Based on the interviews, 9 performance indicators could be identified for the fourth stage of the value-based selling process. These indicators are presented in Table 13. The performance indicators are based on the sales activities that Company A representatives considered as critical in order to successfully communicate the value proposition to the buyer and gain the preferred supplier status in the sales case.

Table 13: Performance indicators for each responsibility level at stage 4

Responsibility level	Performance indicator
Front line	Comparing offering to competitors' offers
Sales team	Sales manager coaching for customer meeting Sales manager participation in customer meeting
Individual salesperson	All value elements discussed Contact's KPIs, interests and motives addressed Mutual understanding of value Decisive factors for win / loss / cancellation reported Preferred supplier status gained Changes to offering reported

The gate criteria for stage 4 can be directly linked to the performance indicators (Table 13). The 8 gate criteria are categorized under the four dimensions in Table 14.

Table 14: Gate criteria for each dimension at stage 4

Dimension	Gate criteria
Value for seller	Value communicated successfully Mutual understanding of value Preferred supplier status
Value for buyer	Mutual understanding of value Value proposition matches or exceeds expectations
Key player	Link to KPIs understood Connection to motives and interests understood
Risk management	No misconception on the value, offering or liabilities

For the seller, it would be important to have successfully communicated the value proposition and to gain the preferred supplier status. From there it is opportune to continue with value-based sales efforts in stage 5 of the process. Furthermore, it is essential that the buyer and the seller have a mutual understanding of the value in order to avoid possible misunderstandings later on.

Value for the buyer is ensured if the value proposition matches, or possibly even exceeds, their expectations. However, it does not matter if the offering fulfills the customer's specifications, if the decision maker in the customer organization perceives the value proposition differently. For this reason, the value must be communicated in a way that the decision maker understands the impact on their personal KPIs, motives and interests.

Considering risk management at stage 4 of the value-based selling process, both sides of the exchange should be on the same page on the details of the offering. There should be no misconceptions on the value proposition, the details of the offering, or the liabilities of the exchange.

At stage 4 of the selling process, the sales activities require exceptional communication skills from sales people. Capabilities that are considered beneficial at this stage are persuasive and credible communication skills, engaging storytelling skills, and leveraging reference cases to provide additional reliability.

Stage 5: Value sharing negotiation, customer relationship development, and risk management

If the value proposition was successfully communicated in stage 4 and the buyer prefers the seller's offering, the value-based selling process advances to the last stage. At this stage the final value sharing negotiations are conducted before the exchange is executed. According to literature, the objective of value-based sales efforts would be to enable value-based pricing at the end of the sales process. However, in Company A's business, value-based pricing is not a viable option. For this reason the goal of value-based sales efforts is to avoid giving discounts which our common in the industry. Essentially, this can be considered as a form of improved value sharing which would result in several performance outcomes: improved margins, improved contribution margins, increased profitability, increased revenue, and improved revenue per sale. In addition to these performance outcomes, the successful application of value-based selling can result in higher hit rates, increased number of orders, and improved NPI score.

A successful value-based selling process will not only result in performance outcomes, it will also improve and deepen the customer relationships. The development of business relationships should be monitored in order to understand whether they are developing in the right direction or not. The seller makes post-sale visits to customers during which the promised value is verified. These kinds of follow-up meetings not only indicate commitment by the seller which improves the relationship, but also enable measuring the actual value that was created in the customer's business which provides reference cases for future sales.

"Probably follow-up meetings are the best way to understand what kind of value we're creating. We'll have to get their feedback on how we're doing, are we delivering on our commitments. That would be probably the only way, I would think. Retention would tell you if you're doing a good job of delivering on those promises."

-Sales Development Director, Company A

Key accounts and repeat customers require sophisticated account management to tend to the close business relationship, and possibly even propel the relationship into a partnership. The account management is important for several functions: monitoring how often customers are visited and evaluating if the frequency is increasing, estimating the share of the customer's wallet that the seller has and identifying if it has improved, following the development of the NPI score of the customer, and tracking the number and size of orders the customer makes. The customer is surveyed for their satisfaction on both the overall sales process as well as the seller company itself.

Sharing knowledge and best practices on value-based selling is important in the final stage of the value-based selling process. The front line must ensure that all relevant information of the sales case and the customer are reported and shared internally. By accumulating their knowledge on customers and successful sales cases, the sales function is able to improve their performance in value-based selling and optimize their efforts in order to get the most out of the limited resources and time available.

“My job is to emphasize sharing good practices and experiences across different front lines. There's some very good things happening in some places, and there's some weaknesses in others. My role is to try and fill those gaps, and grow the good guys and pull up the ones who are probably struggling a little bit.”

-Sales Support Director, Company A

The performance indicators and gate criteria proposed for stage 5 of the value-based selling process are presented in Tables 15 and 16. The metrics are closely linked at this stage, with the performance indicators suggesting what to measure and monitor, while the gate criteria propose the type of impact that should be experienced if the value-based selling process has been successful. Connected to the metrics, there are certain key capabilities that enable the sales function to perform successfully also in the final stage of the selling process. Value sharing negotiation skills are required for refraining from giving out discounts. For improving and deepening the relationship with the customer, the sales people have to be able to network and systematically develop the business contacts. Moreover, the risks of the exchange should be limited and controlled appropriately before the deal is sealed.

Table 15: Performance indicators for each responsibility level at stage 5

Responsibility level	Performance indicator
Front line	Knowledge sharing Number of orders, revenue per order Share of customer wallet Hit rate and contribution margin Account management
Sales team	Number of customer meetings NPI score Number of customer contacts Value verified with customer Reference cases reported
Individual salesperson	Number of sales Hit rate and sales margin Target price reached/ amount of discount Transactional survey score Number of accounts Number of follow-up meetings Revenue per sale

Table 16: Gate criteria for each dimension at stage 5

Dimension	Gate criteria
Value for seller	Improved hit rate, margins, market share and revenue Increased number of accounts, contacts, and contracts Improved customer relationship and NPI score
Value for buyer	Value created as promised Business objectives achieved Improved business results Loyalty to seller increases
Key player	KPIs reached Personal goals achieved Satisfied with overall process
Risk management	Contractual liabilities limited Risk of default low Risk of transaction and contract controlled

5.2 Synthesis of the empirical findings

The interviews with Company A representatives provided valuable insights and knowledge on evaluating the adoption of value-based selling as well as monitoring the success of the application of the approach. The interview structure was created based on existing research and the theoretical value-based selling process. The interview focused on one stage at a time in order to identify all critical sales activities and relevant gate criteria. The findings include both validated literature findings as well as empirical outcomes which are metrics utilized by the case company in their sales process which is very much in line with the theoretical value-based selling process. The empirical findings are summarized in the following two tables: the performance indicators and key capabilities are presented in Table 17 and the gate criteria are listed in Table 18. The empirical findings are compared to literature findings in the 'Discussion and Conclusions' chapter.

The performance indicators summarized in Table 17 include sales activities and sales metrics that have a critical role in performing value-based selling successfully. The performance indicators guide the sales function to right activities at each stage. As theory suggests, if these activities are not executed, the sales function will not be able to practice a value-based sales approach efficiently, effectively, and profitably. Each stage of the value-based selling process has distinct objectives which reveal whether the sales function should continue with value-based sales efforts in a certain sales case or not. These objectives are not reached unless the sales function performs activities measured by the performance indicators. The key capabilities included in Table 17 have to be present in the sales function in order for them to be able to execute the critical activities. Since the performance indicators monitor what the sales function does, the indicators can essentially be used for evaluating the maturity and progress of the adoption of the value-focused sales approach. If the sales function does not perform critical activities at each stage, it is a clear indicator that adoption is not yet complete.

Table 17: Synthesis of the empirical findings for performance indicators and key capabilities

Value-based seller activity	Value research, relevant opportunity identification, and customer selection	Opportunity validation and customer value creation potential identification	Customer needs apprehension, offering validation, and differentiation identification	Persuasive and credible communication of the value proposition to the customer	Value sharing, customer relationship development, and risk management
Responsibility level					
Front line	• Market analysis • Customer business analysis • Sales strategy • Sales lead analysis	• Insights on industries, customers and positions collected internally • Customer information and details of visits shared • Number of opportunities		• Comparing offerings to competitors'	• Knowledge sharing •Number of orders, revenue/order • Share of customer wallet • Hit rate and contribution margin • Account management
Sales team	• Customer segmentation • Customer analysis • Business opportunity evaluation	• Number of customer visits • Number of visits converted to opportunities • Decision makers identified	• Offering and quantification discussion with sales manager/ within team • Number of opportunities converted to tenders	• Sales manager coaching for meetings • Sales manager participation in meetings	• Number of customer meetings • NPI score • Number of customer contacts • Value verified with customer • Reference cases reported
Individual salesperson	• Reference case analysis • Network and relevant contact identification	• Value research conducted • Customer needs, requirements, objectives and values reported • Contact to decision maker • Customer contact's interests, motives and KPIs reported • Customer's perception of solution influenced • Customer need created	• Offering fulfills customer and contact specifications • Key value drivers and unique selling points identified • Tangible value quantified • Intangible value evaluated qualitatively • Reference cases utilized	• Value elements discussed • Contact's KPIs, interests and motives addressed • Mutual understanding of value • Decisive factors for win / loss / cancellation reported • Preferred supplier status gained • Changes to offering reported	• Number of sales • Hit rate and sales margin • Target price reached / discounts • Transactional survey score • Number of accounts • Number of follow-up meetings • Revenue per sale
Capabilities					
Key capabilities	• Business knowledge and understanding • Strategic decision making • Networking	• Active listening • Business knowledge and understanding • Exceptional interpersonal skills • Psychological skills	• Comprehensive knowledge of own offering • Crafting offering according to specifications • Identifying key value drivers and unique selling points • Quantifying the value proposition	• Persuasive and credible communication • Engaging storytelling skills • Leveraging reference cases	• Value sharing negotiation skills • Networking • Business relationship development • Risk management

Performing the sales activities that are measured by performance indicators at each stage will either lead to fulfilling gate criteria (Table 18) or not. Monitoring the gate criteria reveals whether the customer and the sales case is opportune for value-based selling, and thereby enables effective opportunity management. If gate criteria are not fulfilled in a particular sales case, value-based selling should not be continued. The gate criteria can only be reached by performing the right activities measured with the performance indicators. Monitoring the success of the application of value-based selling can be done with the gate criteria because they are the desired verifiable outcomes at each stage. A value-based selling process is evidently successful if all the identified gate criteria are fulfilled. Theory supports the proposition that value-based selling cannot be successful if gate criteria are not matched, and therefore the value-based sales efforts are dropped at that stage of the selling process.

Table 18: Synthesis of the empirical findings for gate criteria

Value-based seller activity / **Dimension**	Value research, relevant opportunity identification, and customer selection	Opportunity validation and customer value creation potential identification	Customer needs apprehension, offering validation, and differentiation identification	Persuasive and credible communication of the value proposition to the customer	Value sharing, customer relationship development, and risk management
Value for seller	• Fit to sales strategy • Attractive customer segment • Prioritized lead	• Strategic or major customers • Repeat customer, good NPI score • Unique features/ options required • Specifications, need influenced	• Unique/ special / differentiating features • Value quantified and communicable	• Value communicated successfully • Mutual understanding of value • Preferred supplier status	• Improved hit rate, margins, market share and revenue • Increased number of accounts, contacts, contracts and NPI score • Improved customer relationship
Value for buyer	• Ready to open up for value dialogue	• Needs communicated • Acknowledged pain/ challenge • Determined objectives • Uncertainty of required solution	• Offering fulfills needs and requirements • Offering removes pain • Offers significant value	• Mutual understanding of value • Value proposition matches or exceeds expectations	• Value created as promised • Business objectives achieved • Improved business results • Loyalty to seller increases
Key players	• Decision maker contacts	• Decision maker contacts • Relevant timing • Motives, interests and KPIs recognized	• Offering impacts KPIs • Offering in line with motives and interests	• Link to KPIs understood • Connection to interests and motives understood	• KPIs reached • Personal goals achieved • Satisfied with overall process
Risk management	• Compelling customer business opportunity	• Customer's financial stability • Potential repeat business with customer		• No misconception on the value, offering or liabilities	• Contractual liabilities limited • Risk of default low • Risk of transaction/ contract controlled

6. Discussion and conclusions

This chapter will begin with a summary of the literature and empirical researches of this Master's Thesis. The research questions and objectives are shortly presented, followed by a brief description of how the literature research and the empirical study were conducted. The structure of the thesis and the content of the chapters are also referred to while summarizing the thesis. The summary ends in a comparison of the results of the literature study and empirical research.

After the overview of the research, the findings of the thesis will be discussed in more detail. Discussion on the findings will provide managerial and theoretical conclusions. In the managerial implications, the significance of the study and the findings in practice is reflected on. The contribution to theory of the outcomes is contemplated after this.

The chapter ends in an evaluation of the study and how it was conducted. This is followed by propositions for future research avenues and compelling contingent study topics.

6.1 Summary of the research

The purpose of the thesis was to study measuring the adoption and the application of value-based selling in an industrial business-to-business exchange context. The objective was to identify and develop metrics for evaluating the progress and the maturity of the adoption of a value-focused sales approach, as well as for monitoring the success of the application of the approach. Furthermore, key capabilities for successful adoption and application were identified alongside the metrics.

The research consisted of two parts: studying existing literature and conducting an empirical case study. The theoretical research provided findings from literature, which could be validated in the case study. In addition, the empirical research provided outcomes that could not be discovered from existing theory. Due to the dual nature of the research, the research questions were devised as follows:

RQ1: What metrics does literature propose for measuring the adoption and application of value-based selling, and which capabilities support them?

RQ2: Which metrics evaluate the maturity and progress of the adoption of value-based selling, and which capabilities support it?

RQ3: Which metrics monitor the application of value-based selling, and which capabilities support successful application?

The literature research answered the first research question, and the empirical case study focused on the second and third research questions. However, before the research questions could be answered, it was necessary to introduce the research context. Therefore, the purpose of Chapter 2 is to present central concepts and background theory in relation to value-based selling. Understanding the premises and doctrines of value-based selling is fundamental in order to fathom the findings of the literature and empirical researches. Chapter 2 covers concepts such as customer value, the dimensions and characteristics of value, value creation, value in exchange, and value quantification.

In the literature research, existing theory was studied from several topics and sources. Dynamic capabilities and change management relate to explaining the adoption process of a value-focused sales strategy. For understanding how to monitor the application of value-based selling and what makes it successful, the value-based selling process and the corresponding customer buying process and seller opportunity management process had to be examined in detail. Moreover, the analytical framework based on which the metrics are crafted, is presented in Chapter 3 also.

The metrics for evaluating adoption were identified to be performance indicators on sales activities during the value-based selling process. The rationale for the performance indicators is that if the sales function is not performing the critical activities at each stage of the selling process, then it can be deduced that adoption is not yet complete. Furthermore, performing the right activities would lead to desired outcomes at each stage which would result in successful application of the approach. Therefore, the metrics for monitoring the success of the application are the gate criteria of each stage which are verifiable outcomes that fulfill the objectives of the value-based sales efforts, and enable effective opportunity management. Chapter 3 presents the findings for the metrics and the supporting capabilities as suggested by existing literature.

Chapter 4 explains the planning, design, and execution of the empirical case study. The empirical part of the thesis was a single-case study during which case company representatives were interviewed in a semi-structured manner. In addition, the research method chapter provides reasoning for the choices made regarding the empirical part, and critical evaluation of the quality of the study.

In the following chapter, Chapter 5, the findings from the interviews are presented one stage at a time of the value-based selling process. The purpose of the metrics and capabilities is explained in detail accompanied by quotes from the interviewees. The second and third research questions are answered by synthesizing the outcomes of the case study in Table 19 and 20 on the following page. These tables are crafted according to the analytical framework presented in Chapter 3. The interview structure is attached to the thesis as Appendix 1.

Comparing the findings from the case study (Table 19) to the outcomes of the literature research (Table 20), it is notable that the majority of the performance indicators, the key capabilities and the gate criteria are the same. The main reason for this is that the theoretical outcomes were validated in the interviews with the case company. Existing literature provided comprehensive knowledge on the value-based selling process, which is why the findings from theory are already relatively encompassing.

However, the empirical research did provide several additional metrics and capabilities which had not been identified from literature. These metrics and capabilities represent unique sales activities adopted by the case company, and business procedures that are typical for the industry. The case company representatives emphasized communication and interpersonal skills at certain stages of the selling process, which is rational considering that selling is after all a procedure that happens between two human beings. Furthermore, the case company had several measures which it utilized to evaluate the performance of sales, such as number of contacts, number of customer visits, and number of opportunities converted to tenders. These kinds of metrics are not included in the theoretical literature.

Table 19: Synthesis of the empirical findings for performance indicators, key capabilities and gate criteria

Value-based seller activity	Value research, relevant opportunity identification, and customer selection	Opportunity validation and customer value creation potential identification	Customer needs apprehension, offering validation, and differentiation identification	Persuasive and credible communication of the value proposition to the customer	Value sharing, customer relationship development, and risk management
Responsibility level					
Front line	• Market analysis • Customer business analysis • Sales strategy • Sales lead analysis	• Insights on industries, customers and positions collected internally • Customer information and details of visits shared • Number of opportunities		• Comparing offerings to competitors'	• Knowledge sharing •Number of orders, revenue/order • Share of customer wallet • Hit rate and contribution margin • Account management
Sales team	• Customer segmentation • Customer analysis • Business opportunity evaluation	• Number of customer visits • Number of visits converted to opportunities • Decision makers identified	• Offering and quantification discussion with sales manager/ within team • Number of opportunities converted to tenders	• Sales manager coaching for meetings • Sales manager participation in meetings	• Number of customer meetings • NPI score • Number of customer contacts • Value verified with customer • Reference cases reported
Individual salesperson	• Reference case analysis • Network and relevant contact identification	• Value research conducted • Customer needs, requirements, objectives and values reported • Contact to decision maker • Customer contact's interests, motives and KPIs reported • Customer's perception of solution influenced • Customer need created	• Offering fulfills customer and contact specifications • Key value drivers and unique selling points identified • Tangible value quantified • Intangible value evaluated qualitatively • Reference cases utilized	• Value elements discussed • Contact's KPIs, interests and motives addressed • Mutual understanding of value • Decisive factors for win / loss / cancellation reported • Preferred supplier status gained • Changes to offering reported	• Number of sales • Hit rate and sales margin • Target price reached / discounts • Transactional survey score • Number of accounts • Number of follow-up meetings • Revenue per sale
Capabilities					
Key capabilities	• Business knowledge and understanding • Strategic decision making • Networking	• Active listening • Business knowledge and understanding • Exceptional interpersonal skills • Psychological skills	• Comprehensive knowledge of own offering • Crafting offering according to specifications • Identifying key value drivers and unique selling points • Quantifying the value proposition	• Persuasive and credible communication • Engaging storytelling skills • Leveraging reference cases	• Value sharing negotiation skills • Networking • Business relationship development • Risk management
Value-based seller activity	Value research, relevant opportunity identification, and customer selection	Opportunity validation and customer value creation potential identification	Customer needs apprehension, offering validation, and differentiation identification	Persuasive and credible communication of the value proposition to the customer	Value sharing, customer relationship development, and risk management
Dimension					
Value for seller	• Fit to sales strategy • Attractive customer segment • Prioritized lead	• Strategic or major customers • Repeat customer, good NPI score • Unique features/ options required • Specifications, need influenced	• Unique/ special / differentiating features • Value quantified and communicable	• Value communicated successfully • Mutual understanding of value • Preferred supplier status	• Improved hit rate, margins, market share and revenue • Increased number of accounts, contacts, contracts and NPI score • Improved customer relationship
Value for buyer	• Ready to open up for value dialogue	• Needs communicated • Acknowledged pain/ challenge • Determined objectives • Uncertainty of required solution	• Offering fulfills needs and requirements • Offering removes pain • Offers significant value	• Mutual understanding of value • Value proposition matches or exceeds expectations	• Value created as promised • Business objectives achieved • Improved business results • Loyalty to seller increases
Key players	• Decision maker contacts	• Decision maker contacts • Relevant timing • Motives, interests and KPIs recognized	• Offering impacts KPIs • Offering in line with motives and interests	• Link to KPIs understood • Connection to interests and motives understood	• KPIs reached • Personal goals achieved • Satisfied with overall process
Risk management	• Compelling customer business opportunity	• Customer's financial stability • Potential repeat business with customer		• No misconception on the value, offering or liabilities	• Contractual liabilities limited • Risk of default low • Risk of transaction/ contract controlled

In the case study, the performance indicators for evaluating adoption of value-based selling were categorized according to the responsibility level of the sales activity. This is important in the operations of the case company, which is why the findings are presented with the three responsibility levels. Theory does not specify responsibility levels for the sales activities, and it is understandable because the responsibilities within the sales function vary greatly from industry to industry, and from company to company.

Most of the key capabilities suggested by the empirical research could be deduced from the sales activities and verifiable outcomes that were identified in the interviews. The necessary capabilities for successful application of value-based selling are well in line with what literature proposes. However, the interviews provided very little insight on the capabilities required for successful adoption of a value-focused sales strategy. Reasons for this were that most interviewees were not part of planning the adoption process, and the case company considered the adoption similar to any other organizational change process.

Table 20: Synthesis of the theoretical performance indicators, key capabilities and gate criteria for each stage of the value-based selling process

	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
Value-based seller activity	Value research, relevant opportunity identification, and customer selection	Opportunity validation and value creation potential identification	Requirements apprehension, offering validation, and differentiation identification	Persuasive and credible communication of the value proposition	Value sharing negotiation, relationship development, and risk management
Performance indicators	• Market analysis • Customer business analysis • Sales strategy • Reference case analysis • Customer contacts • Customer's readiness to partner	• Customer needs, requirements, desires and pain identified • Customer perception of the solution influenced • Solution requires unique features • Decision makers identified	• Offering fulfills all customer needs and requirements • Key value drivers and unique selling points identified • Value proposition quantified • Customer involved in quantification • Reference cases utilized	• All value elements discussed • Mutual understanding of value • Value quantification and offering modified accordingly • Preferred supplier status gained	• Hit rate, margins and revenue • Post-purchase meetings with customer • Reference case reported • Common milestones with customer • Share of customer's wallet • Number of orders from the customer
Key capabilities	• Business knowledge and understanding • Strategic decision making • Networking	• Active listening • Finding out customer's requirements, pain and objective • Understanding customer's business	• Comprehensive knowledge on own offering • Matching offering to customer's specifications • Value quantification • Identifying unique selling points	• Persuasive and credible communication skills • Leveraging reference cases	• Value sharing negotiation skills • Networking • Developing customer relationship • Managing risks in exchange
Gate criteria/ dimension					
Value for seller	• Strategic fit • Attractive customer segment	• Unique features required in solution • Solution specifications influenced	• Unique selling points • Quantified value	• Value conversation successful • Mutual understanding of value • Preferred supplier status	• Improved hit rate, margins and revenue • Improved customer relationship • Increased number of orders
Value for buyer	• Customer ready to open up for value dialogue	• Needs communicated • Acknowledged pain • Uncertainty of required solution	• Offering fulfills needs and requirements • Offering removes pain • Offering has true business impact potential	• Mutual understanding of value • Value proposition matches specifications	• Value created as promised • Business objectives achieved • Improved business results • Increased loyalty to seller
Key players	• Decision maker contacts	• Decision maker contacts	• Understand and believe quantification process	• Offering matches business objectives	• Satisfaction with overall sales process and exchange
Risk management	• Compelling business opportunity • Positive potential value of the business relationship	• Opportunity for true business impact	• Unique and differentiating selling points	• No misconception of value or offering	• Contractual liabilities limited • Overall risk of the transaction is controlled

6.2 Managerial implications

The metrics that were identified in this thesis and the analytical framework that was crafted to structure the measures will provide a useful tool to sales managers to monitor value-based selling. The findings of the thesis provide an insightful basis for understanding what a successful value-based selling process looks like. The performance indicators reveal what type of critical activities should be performed at each stage of the process. By monitoring the execution of these sales activities, the sales managers can evaluate the success of adoption. In addition, the sales managers must ensure that the organization possesses the critical capabilities to initiate a successful adoption process: motivating the change, understanding the prerequisites for the approach, facilitating the required capabilities and tools for change, incentivizing change, and monitoring change.

By performing the right activities at each stage, the sales function is able to reach objectives and fulfill gate criteria. If the gate criteria are not matched, it is not justified from an opportunity managerial perspective to continue with value-based sales efforts. The purpose of engaging resources only in sales cases that fulfill gate criteria throughout the process, is to optimize resource allocation in order to enable profitable and effective value-based selling.

However, it is essential to keep in mind that the characteristics and dynamics of individual industries as well as business markets affect value-based selling. This is one of the reasons for the differences between the findings from literature and the empirical study. The metrics proposed by theory are not necessarily applicable as such in every company. Different markets and geographical locations are in different stages of development, and they have varying established customs for doing business. Consequently, it is fundamental to consider these aspects when adopting a value-based sales strategy and developing metrics to monitor it. Moreover, it is even debatable whether value-based selling can be practiced in every company. Due to the circumstances in some countries and markets, value-based selling can be very hard to execute, if not impossible.

"Is it even possible to develop universal metrics for value-based selling which would work in every market and industry? I highly doubt that value-based selling could be practiced within the same theoretical framework in Finland as in China, for example."

-Business Line Director, Company A

Furthermore, selling is often a much more complex process in practice than what theory suggests. For example, the selling process does not always follow the five stage process that theory suggests. Sometimes several of the stages can be covered during a single customer meeting. Moreover, in practice the selling process looks very different depending on whether you are dealing with a repeat customer or a new customer. With a repeat customer the selling process is circular and does not include all of the stages of the theoretical value-based selling process. In addition, the customer's buying practices may vary significantly from company to company. It is not uncommon, for example, that there are different contact persons from the customer organization at different stages of the selling process.

Despite the complexities of selling in practice, existing literature proposes several practical managerial questions (Table 21) which should be answered at each stage of the value-based selling process. These questions guide managers to develop sales towards an effective value-based approach. Performance indicators will help answering the questions and gate criteria should represent the outcomes. By systematically answering the managerial questions at each stage, the seller can be able to achieve competitive advantage with value-based selling.

Table 21: Managerial questions for each stage of the value-based selling process as proposed by literature

	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
Value-based seller activity	Value research, relevant opportunity identification, and customer selection	Opportunity validation and value creation potential identification	Requirements apprehension, offering validation, and differentiation identification	Persuasive and credible communication of the value proposition	Value sharing negotiation, relationship development, and risk management
Managerial questions	• Does the customer have a strategic fit for us? • Does the customer have a compelling business opportunity? • Is the customer ready for open conversation on value? • Do we have the right contact persons in the customers organization? • Do we have prior success cases with the customer?	• Were we able to find out the customer's needs, values and requirements • Are they appropriate for value-based selling? • Are we able to effectively differentiate from competitors? • Did we influence the customer's perception of a solution? • What is the customer's ultimate objective? • Is the customer contact in a decision making position?	• Does our offering fulfill all of the requirements of the customer? • Are we able to remove the customer's pain and help them reach their objectives? • What are the unique value selling points/ key value drivers? • Were we able to quantify the value proposition? • How do we differentiate from competitors?	• Were we able to credibly demonstrate the value? • Do we have a mutual understanding of the value to the customer? • Did we achieve the preferred supplier status? Why or why not? • Does our offering correspond to what the customer expected? • How do we or why didn't we differ from competitors?	• Were we able to capture a fair share of value? • Did we match target price/ profitability levels? • Has the customer relationship improved/ deepened? How? • Have we verified the promised value? • How successful was the sales process as a whole? • Is the customer satisfied? • How did we manage risks in the exchange?

6.3 Theoretical contributions

Value-based selling has attracted significant attention from academics and researchers in recent years. In addition, it has been identified as a potential source of competitive advantage in industrial selling. A value-based approach to selling has been recognized as a promising solution for the prevailing challenges with increased competition, decreasing margins and global sourcing practices of customers (Hinterhuber, 2004; Liozu et al., 2012). Consequently, the sales function has evolved into a strategic role in many companies (Geiger & Guenzi, 2009; Leigh & Marshall, 2001; Storbacka et al., 2009).

However, there is yet no definite understanding on how value-based selling can be practiced effectively and whether the outcomes our beneficial for the seller. Theory suggests that a proactive, value-focused mentality in selling would at least enable the seller to influence the customer's perception of value, possibly create a need in the customer organization, improve chances of closing deals, and introduce value co-creation to the exchange (Adamson et al., 2012). Nevertheless, assumptions on improved profitability and other business impacts have not been verified in practice. Furthermore, existing literature has not examined the key capabilities required at different stages of the selling process which would enable successful application.

The findings from this thesis propose a theoretical framework for understanding, first of all, how to evaluate the adoption of a value-focused sales approach, and the central capabilities required to successfully realize the change in the organization. One of the main theoretical contributions of the thesis is identifying that the effective method for evaluating adoption, is to monitor whether the sales function is performing the critical activities at the right time in the selling process. If sales efforts are lacking certain activities, this is a clear indicator that adoption is not yet complete and the shortcoming must be corrected. The critical activities, and the capabilities needed to perform them, were identified from the literature research and the empirical case study.

Furthermore, the theoretical framework provides further research with inaugural gate criteria for monitoring the success of the application of value-based selling. Value-based selling can only be expected to be successful and have business impacts if the sales function has adopted the approach effectively. This is why it is first important to identify whether the sales function is performing the right activities in order for it to be able to fulfill the gate criteria. Based on the gate criteria that are identified in a sales case, the seller is able to apply effective opportunity management. Due to the resource-intensive and time-consuming nature of value-based selling, effective opportunity management plays a key role in the business impacts of the approach. In order for the seller to achieve positive business impacts, such as increased margins, improved hit rate, and increased profitability, it must engage resources only to customers and sales cases that are opportune for value-based selling. Monitoring the gate criteria and applying effective opportunity management enables the seller to optimize the return on the invested resources.

Several existing studies support the profitability and benefits of value-based selling (Aberdeen Group, 2011; Terho et al., 2012), however there has been a gap in research on the mechanisms that embody the effects of value-based selling on company performance, profitability, and growth (Töytäri, 2015b). This thesis effectively fills this gap by explaining how the maturity and the progress of the adoption of value-based selling can be monitored, and by presenting what are the verifiable outcomes, or gate criteria, at each stage of a successful value-based selling process.

6.4 Future research considerations

This thesis focused on examining how the adoption of value-based selling can be evaluated, and how the success of the application of the approach could be monitored. The findings of the study provide a framework of metrics which enable assessing whether the sales function is performing the right activities, and whether the customer and the sales case are opportune to continue with value-based sales efforts. The framework functions as a guideline for a successful value-based selling process.

Since this thesis describes how a successful value-based selling process looks like, a compelling avenue for future research could be studying what the true business impacts of successful value-based selling are. The business impacts could not be studied before because there was no knowledge on when value-based selling has been adopted and successfully applied. In the findings of this thesis, the gate criteria of the final stage of the selling process represent some potential business impacts, or performance outcomes, that may result from value-based selling. However, these could not be verified in this study because the case company had not fully adopted the sales approach yet.

Referring to what was explained earlier in this chapter, value-based selling depends on the industry, the market, and the country that it is used in. Consequently, these aspects should be considered when developing metrics for monitoring the adoption and the application of the approach. An interesting research opportunity would be to conduct a multi-case study on companies from different industries and countries, in order to examine how much the appropriate metrics for the framework would differ from each other.

Furthermore, as discussed earlier, the selling process is often much more complex than what theory suggests. In a sales case, it is possible that more than one stage of the theoretical process is covered within a single customer meeting. It can also happen that not all of the stages are covered with a customer, or that the sales case does not advance in a linear fashion as theory proposes. Often times the timespan of a sales case can also vary significantly, from weeks to years, which causes challenges for executing the value-based selling process. All these concerns hinder the seller's ability to apply effective opportunity management to sales efforts. For this reason, a future research consideration would be to study how opportunity management can conform to the varying nature of sales cases.

A final proposition would be to study in detail the costs of value-based selling and compare these to traditional, reactive selling. This type of research could provide insight on how much more the organization would have to get out of sales cases in order for the value-based sales efforts to be profitable. Costs of value-based selling not only include the time that sales people use to research sales cases and engage customers proactively, but also the time that is required to report all necessary information from the sales case so that the sales approach can be monitored as this thesis suggests.

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8. Appendix 1: Interview questions

Background information

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School of Science

- (Brief description of the interview topic, schedule, responsible organization for the study/confidentiality etc.)
- What is your job title and description?
- How are you positioned in the sales organization? Which business line and which geographical area?
- Briefly: How would you define value selling? When do you consider that value selling has been applied? How does a successful value selling case look like?

  My definition for value-based selling: *"A proactive approach to selling in which the buyer and the seller together formulate a perception of a solution that truly resolves the buyer´s challenge enabling real value creation in the exchange, and this value potential of the eventual offering is explicitly communicated and demonstrated to the buyer by the seller."*

Implementation of value selling

Aalto University
School of Science

Five underlying issues:

1. Offering characteristics
2. Customer characteristics
3. Motivation to change
4. The magnitude of the change
5. Management support and incentives

- Do you sell everything/ your whole solution and service portfolio with the value selling approach?
- Do you use value selling for every customer/ your whole customer portfolio?
- What was the motivation for change? Was the sales function's motivated for the change?
- Which relevant capabilities did you already have? What capabilities had to be developed within the sales function? How were they developed?
- How big was the change from your previous sales approach to value selling?
- Does the sales management support value selling? How? Do you have new incentives in the sales function for using value selling?
- What measures were followed to evaluate the progress of the implementation on the sales organization level, business line level, sales team level, individual level?
- How is value selling organized into action? How does the process look like? What stages does it include?

Stage 1: Opportunity identification

Aalto University
School of Science

- Who evaluate opportunities? Who make the decisions on opportunities?
- What makes a potential customer and a sales case opportune for extensive value selling? What metrics/performance indicators are used? (e.g. customer grouping strategic or core1, strategic customer, customer location, customer relationship potential, customer readiness to partner, customer buying habits, right contact person in the customer organization, characteristics of potential offering)
- What are the verifiable outcomes on sales organization level, business level, sales team level, and individual level?
- What sales tools support the activities at stage 1?
- What capabilities does opportunity management require?

Stage 2: Opportunity validation

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School of Science

- Are you able to find out the need of the customer? Are you able to influence it?
- What measures are used to evaluate/ are the verifiable outcomes of opportunity validation on sales organization level, business level, sales team level, and individual level? How do you evaluate the success of opportunity validation?
- What data is available on opportunity validation?
- What capabilities does opportunity validation require?
- What kind of sales tools do you have to support opportunity validation?

Stage 3: Differentiation identification

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School of Science

- Which solutions and services are sold with value selling?
- Are you able to quantify the value that you supposedly offer? How?
- What measures are used to evaluate your offering on sales organization level, business level, sales team level, and individual level? Based on which measures are decisions made?
- What are the verifiable outcomes? What sales tools do you have to support value selling?
- What data is available on understanding how the offering is evaluated?
- What capabilities does offering validation and value quantification require?

Stage 4: Communication of value potential

Aalto University
School of Science

- Is value always quantified and communicated?
- What else is done to attain preferred supplier status? (e.g. in addition to economic value, communicating functional value or relationship value)
- What measures are used to evaluate value communication on sales organization level, business level, sales team level, and individual level? How is the development and success of value communication monitored?
- What data is available on value communication actions? What are the verifiable outcomes?
- What skills/tools does value quantification and communication require?

Stage 5: Value sharing and risk management

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- Do you conduct value sharing negotiations?
- What kind of risk management actions do you have?
- What measures are used to evaluate negotiations and risk management on sales organization level, business level, sales team level, and individual level?
- What are the verifiable outcomes?
- What capabilities does value sharing negotiations and risk management require? What sales tools do you have to support these?
- Do you have any follow-up actions? How do you share information within the sales organization (on different levels)? What forums do you have?